chasing the AMERICAN DREAM

EDITED BY WILLIAM M. ROHE and HARRY L. WATSON

new perspectives on AFFORDABLE HOMEOWNERSHIP

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CHASING THE AMERICAN DREAM

Chasing the American Dream

New Perspectives on Affordable Homeownership

Edited by

WILLIAM M. ROHE

and **HARRY L. WATSON**

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Preface

The value of homeownership is deeply ingrained in American public culture. From early laws requiring landownership for the right to vote, to nineteenth-century homestead legislation, to contemporary real estate brochures, the ownership of a home has long been presented as a crucial part of the "stake in society" expected of full-fledged members in many American communities. For millions of families and individuals, the pursuit of homeownership has been a central feature of the fabled "American Dream."

Beyond these cultural values, there is also increasing evidence from social scientists that homeownership offers special benefits to families and communities. Neighborhoods with large proportions of owner-occupied homes may be more stable, less dangerous, and more supportive of civic involvement than their counterparts, even if the owners have low incomes. For individuals, homeownership can become a crucial step in the accumulation of wealth and the escape from poverty. At the same time, experts and policymakers warn that homeownership is not ideal for everyone, and no single form of home tenure should crowd out all the alternatives in healthy, diverse communities.

This book grew out of an effort to explore and evaluate the importance of affordable homeownership in twenty-first-century America, undertaken by the Center for Urban and Regional Studies and the Center for the Study of the American South at the University of North Carolina at Chapel Hill. Titled "This House Is Home," the project began with the work of documentary photographer Bill Bamberger, who traveled to Chattanooga, Tennessee, San Antonio, Texas, and Grifton, North Carolina, to collect the stories and images of low-income families whose struggles for homeownership had dramatically enhanced their own lives. His work appeared in "Stories of Home," a special exhibit at the National Building Museum in 2004, and also inspired a conference on affordable

homeownership at the University of North Carolina at Chapel Hill in October 2003. The conference phase of "This House Is Home" explored the origins of Americans' commitment to homeownership; probed the costs and benefits of homeownership for contemporary families and communities, particularly in low-income areas; explored the political, economic, social, planning, and design issues related to homeownership initiatives; and tried to evaluate the value and effectiveness of these programs. We are deeply grateful to the participating scholars for agreeing to share their work with the readers of this book.

We also welcome the opportunity to thank our friends for their indispensable help in this long and complex project. Bill Bamberger first imagined the project and continually inspired us with the power of his art. Greg Snyder of the University of North Carolina–Charlotte designed a graceful and innovative mobile gallery for the work in San Antonio. Joseph Mosnier of the Center for the Study of the American South brought essential skills in management and fundraising to his task as project manager, while Debra Hill of the Center for Urban and Regional Studies provided crucial assistance in the preparation of this book. Finally, we are deeply grateful to our generous benefactors who made the entire project possible. GE Mortgage Insurance Corporation and the Ford Foundation served as the principal national sponsors of "This House Is Home," joined by the Enterprise Foundation as national partner. Crucial additional assistance came from the Annie E. Casey Foundation, the Fannie Mae Foundation, the Federal Home Loan Bank of Atlanta, Freddie Mac, the National Endowment for the Arts, Washington Mutual Corporation, the Neighborhood Reinvestment Corporation, and the Federal Home Loan Bank of Dallas. Their support has been indispensable to our deeper understanding of the American Dream.

William M. Rohe and Harry L. Watson

CHASING THE AMERICAN DREAM

1

Introduction

Homeownership in American Culture and Public Policy

WILLIAM M. ROHE and HARRY L. WATSON

Providing decent, safe, and affordable housing to low- and moderate-income families has been an important U.S. public policy objective for more than a century. In reaction to dilapidated and unsafe housing conditions, overcrowding, homelessness, and affordability problems, federal, state, and local governments, as well as a number of nonprofit and advocacy organizations, have through a variety of policies and programs promoted the development of safe and affordable housing.

Affordable housing programs fall into one of two categories: those that seek to increase affordable rental opportunities and those that seek to increase affordable homeownership opportunities. The affordable rental programs include the federal Public Housing Program, which supports the development of low-rent housing developments, and the Section 8 Housing Voucher Program, which subsidizes the rent payments made by lower-income households that rent housing in the private market. Examples of affordable homeownership programs are the Federal Housing Administration (FHA) mortgage insurance programs, which typically offer lower–interest rate mortgages and looser underwriting standards than conventional mortgages, and the now defunct Section 235 program, which provided low-income buyers with below–market interest rate loans that require smaller monthly payments. Much of the federal block grant funding, including billions of dollars in Community Development Block Grant and HOME Investment Partnership programs, is used by local governments to support locally developed affordable homeownership programs.

In recent years there has been a clear shift of emphasis among policymakers from a focus on providing affordable rental units to a focus on providing affordable homeownership opportunities. The Clinton administration, for example, set ambitious goals for raising the nation's homeownership rate, with particular emphasis on minority and single-parent households. It also provided

additional funding for the promotion of affordable homeownership. For its part, the Bush administration introduced a new program to assist thousands of low- and moderate-income households in making down payments on homes. A similar trend has taken place at the local level, with many local governments deciding to shift their support from the development of rental housing to the development of homeownership opportunities (Basolo 1997).

This shift in emphasis from affordable rental to affordable ownership is at least partially responsible for the steady increase in the homeownership rate in recent years, which is at an all-time high.

The goal of this book is to provide a critical assessment of the renewed emphasis on affordable homeownership policies and programs. The various chapters address a number of fundamental questions: What explains the emphasis on affordable homeownership? What are the arguments for the benefits of affordable homeownership over affordable rental housing policies and programs? To what extent are those arguments supported by empirical research? What are the consequences of this emphasis on homeownership in terms of who receives housing assistance? To what extent can lower-income households achieve and benefit from homeownership? What are the limitations of a national housing policy that emphasizes homeownership? Ultimately, we hope to shed new light on the policies and programs that foster affordable homeownership and on housing policy in general.

In this introductory chapter we present a brief review of five perspectives from which to explain and assess the relative benefits of affordable homeownership policies and programs. These five perspectives provide an organizational framework for subsequent chapters. In this chapter we also review the major public policies that have been enacted to expand homeownership opportunities to American households. In doing so, we hope to give the reader an understanding of the policy context into which the subsequent chapters fit. We also present data on the trends in homeownership rates over the years and how those rates have differed by race, ethnicity, family type, and other social variables. Finally, we provide a brief overview of the benefits and limitations of affordable homeownership programs as presented in subsequent chapters.

Perspectives on Affordable Homeownership

Given the broad range of arguments on the relative benefits of homeownership over rental housing, a comprehensive assessment must employ a multidisciplinary perspective. As shown in figure 1.1, there are five perspectives from which to analyze affordable homeownership policies and programs. These are historical and cultural, political, design and planning, economic, and social-psychological. Each perspective provides unique insights into either the support for or the benefits of affordable homeownership programs and policies. This book is organized into five sections

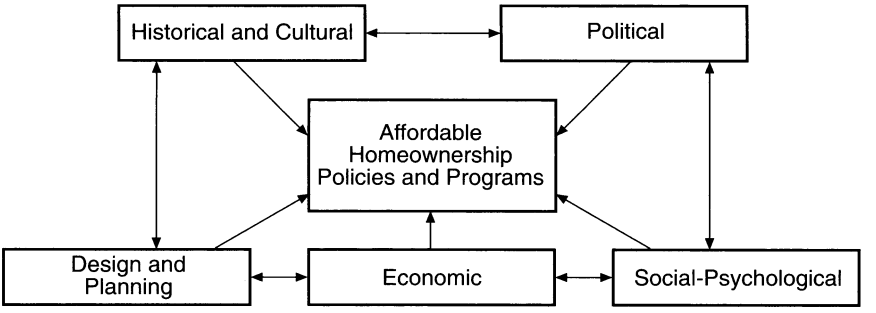


Figure 1.1. Perspectives on affordable homeownership policies and programs.

based on these perspectives. A brief summary of the relevance of each perspective to the issue of affordable homeownership policies and programs is provided here.

The emphasis on affordable homeownership opportunities has been explained and justified in a variety of ways. It is seen as a reemergence of the strong cultural propensity for homeownership rather than rental occupancy, which dates back to the very founding of our country. Homeownership is equated with other strongly held cultural values such as freedom, industriousness, and individualism. The importance of homeownership in American culture is captured in the often cited interest in achieving the "American Dream," in which owning a single-family home plays a central role. Surveys indicate that large majorities of renters are indeed chasing the American Dream of homeownership (Fannie Mae Foundation 2002).

Yet some have questioned the extent to which this cultural propensity for homeownership has been artificially created, or a least enhanced, by those who seek to benefit from the construction, financing, and sale of single-family homes. Has the mythology surrounding the virtues and benefits of homeownership been hyped as a means of boosting the real estate industry? Others have questioned whether extolling the benefits of homeownership has resulted in the denigration of both rental housing and renters themselves. Has homeownership come to signify a badge of social approval that comes with special privileges such as tax breaks, while renters are seen as less accomplished or even undesirable?

Given the significance of homeownership in American culture, it is not surprising that politicians often include its promotion as part of their campaign platforms or that a variety of government programs have been developed to expand it. Advocating the expansion of homeownership is akin to advocating motherhood and apple pie. Who is not in favor of helping families achieve the American Dream? Of course, advocating the expansion of homeownership opportunities is also popular among realtors, homebuilders, and mortgage lenders and insurers, who are large contributors to political campaigns.

But beyond the issue of political expediency, some have questioned why government should be in the business of promoting homeownership. They have asked if there are legitimate public policy rationales for government support of expanding homeownership. Does the expansion of homeownership achieve other important social goals such as creating more stable communities or providing opportunities for upward social mobility through the wealth creation due to house price appreciation? Assuming that there is a compelling public policy rationale for government support of homeownership, others ask if the programs that promote it are effectively and efficiently targeted to those who need assistance in making the transition from renter to owner tenancy.

An additional argument in favor of the promotion of affordable homeownership over affordable rental housing involves design and planning issues. Compared to multifamily rental developments, owner-occupied homes, whether single-family or townhouse developments, are seen as more acceptable to residents of existing neighborhoods. Unfortunately, the design of affordable rental housing in this country has been driven largely by the desire for cost savings rather than by concerns about either integration into existing neighborhoods or the needs and aspirations of the occupants. Large, poorly designed, and poorly managed multifamily "projects" have left the public with a negative view of affordable rental housing developments. The argument is that affordable homeownership programs are more acceptable to neighbors as the units built for sale tend to be single-family or town homes. Moreover, there is a general belief that people will take better care of homes they own rather than rent, and it is easier to spread affordable homeownership opportunities throughout an area rather than clustering large numbers of lower-income families on a single site. Another advantage of affordable homeownership programs is that well-designed homes may be better able to accommodate the needs of lower-income families, as they can be added onto as families grow. This allows them to remain in the same neighborhoods.

But does the fact that affordable housing units are for sale rather than for rent guarantee their acceptance in a community or their success in meeting the needs of lower-income households? The designers and planners of affordable housing developments are faced with a difficult balancing act. On the one hand, they want to create units that both meet the needs of the occupants and are acceptable to local residents. On the other hand, they need to keep costs low so that the limited funding for affordable housing can benefit as many households as possible. A key question is: How can we avoid building affordable homeownership units that are unattractive boxlike structures that neither generate a sense of pride in the owners nor contribute to the surrounding community?

Another rationale for government involvement in promoting affordable homeownership is that homeownership provides lower-income families an opportunity to build wealth. Statistics indicate that the average wealth of homeowning households is ten times that of renter households and that home equity represents

approximately 45 percent of the total wealth of homeowning households (U.S. Census Bureau 1998). The wealth is the result of mortgage payments that reduce the principal amounts of mortgage loans, but the biggest share is typically due to appreciation in the value of homes over time. The impact of an appreciating home on an owner's wealth is magnified by the fact that homebuyers typically borrow a large portion of the purchase price while retaining the full amount of appreciation upon resale. Renters miss out on this important source of wealth creation.

Research has also shown, however, that not all homeowners build wealth through home appreciation. As one study notes, "Local episodes of housing price depreciation can be long and extreme" (McCarthy, Van Zandt, and Rohe 2001, 24). Thus, a key question is how often and under what circumstances do lower-income homeowners build or lose wealth? It is also important to recognize the many costs associated with homeownership beyond the mortgage payment, such as taxes, insurance, utilities, and both maintenance and repairs. To what extent are lower-income owners able to keep up with those payments? Failure to do so may lead to mortgage default and foreclosure, the loss of down payments, and the destruction of credit ratings.

A final rationale for the emphasis on affordable homeownership policies and programs is the presumed positive social-psychological impacts of homeownership. Research comparing owners and renters has found that owners are more satisfied with their homes and neighborhoods and exhibit other indications of psychological well-being, including enhanced self-esteem (Rohe, McCarthy, and Van Zandt 2000). Saunders finds that homeowners "are much more strongly attached to their houses and that such a sense of attachment to place can be an important source of psychological well-being" (1990, 302). Homeowners also stay longer in their homes and are more likely to participate in community organizations, which contribute to community stability and enhancement.

It is important to realize, however, that most of the research that supports the association between homeownership and both psychological well-being and social stability has been conducted on general samples of all homeowners. Thus, it is reasonable to ask if those same associations hold for lower-income homebuyers, who are more likely to buy older homes in need of repair and in neighborhoods that have higher levels of crime and disorder. Maintaining and repairing those homes on limited incomes may be a significant financial burden, and owning a home in a declining area may actually trap people in a neighborhood that they would like to leave.

The Policy Perspective

Given the cultural significance of homeownership, it is not surprising that expanding homeownership has been seen as "good politics" and an important goal of public policy. The Homestead Act of 1862 offered free federal land to those

who would till it and build homes on it. It was not until the 1920s, however, that government and private industry began a concerted effort to extol the virtues of homeownership, and these efforts further blossomed with the economic collapse of 1929. Lawrence Vale in chapter 2 of this book explores this important period in the development of the homeownership ideology and its key role in federal housing policy.

The unemployment and bank failures resulting from the Great Depression led many people to default on their mortgage loans and lose their homes. This in turn led Congress to develop several new institutions designed to support mortgage lending. In 1932 Congress passed the Federal Home Loan Bank Act, which brought thrift institutions under federal regulation. In 1933 Congress created the Federal Savings and Loan Corporation, which allowed approximately 20 percent of existing mortgage holders to refinance their loans (Carliner 1998). Moreover, the following year Congress created the Federal Savings and Loan Insurance Corporation (FSLIC) to restore confidence in financial institutions by guaranteeing deposits, which were needed to provide capital for mortgage lending.

In 1934 Congress also passed a National Housing Act, which, among other things, created the Federal Housing Administration (FHA). The FHA was designed to spur mortgage lending by guaranteeing the repayment of loans in cases of default. This insurance program also lowered the down payment requirements, which were as high as 50 percent, to 20 percent, putting homeownership within the reach of lower-wealth households. The FHA program also set standards with respect to the construction and design of homes, strict appraisals, and an escrow account for tax and insurance payments. In more recent years, FHA programs have been particularly important in assisting lower-income buyers to purchase homes in urban areas.

In another important initiative in 1938, the federal government created the Federal National Mortgage Association, known as Fannie Mae. Fannie Mae began purchasing mortgage loans from local financial institutions, thereby providing those institutions with a consistent stream of funds for mortgage loans. In subsequent years other secondary market institutions were created, including those known as Freddie Mac and Ginnie Mae. Together these organizations have made it easier for lower-income households to purchase homes and have lowered the interest rates on loans that meet their criteria.

In 1944 Congress created the Veterans Administration (VA) loan guarantee program to assist returning veterans in buying homes. VA loans had very low down payment requirements and often had more favorable interest rates than standard loans. Together with the FHA programs, the VA program helped to support the rapid suburbanization of American households after World War II. At the same time, however, these two programs, with their biases toward new homes, played an important role in the decline of America's central cities (Warner 1972).

The special needs of rural households were addressed in 1949, when Congress created the Farmers Home Administration (FmHA) 502 program. At first the program provided government-backed mortgages exclusively to farmers, but in 1961 Congress broadened the program to include all rural homebuyers.

Congress responded to the urban riots of the 1960s (and to a slowdown in the housing industry) by creating the Section 235 homeownership program in 1968. This program offered severely reduced down payments to low-income buyers of modest homes, along with interest rates as low as 1 percent. Rachel Bratt discusses this important program and its problems in chapter 3.

The next significant developments in public policy supporting homeownership came not in the form of new federal institutions or programs but in legislation to regulate the behavior of mortgage lenders. In response to complaints that banks were not approving mortgage applications in central city and minority neighborhoods, a practice called "redlining," Congress passed the Home Mortgage Disclosure Act in 1975. This act requires major lenders to report on the characteristics and location of mortgage applications and whether those applications were approved or denied. Upon analysis, these publicly available data raised serious questions about possible discrimination in mortgage lending. They have been used by housing advocates to put pressure on financial institutions to expand their lending.

In 1977 Congress passed a related piece of legislation, the Community Reinvestment Act (CRA), to put additional pressure on lending institutions to issue loans to qualified applicants of all races and in all neighborhoods. The CRA made it clear that lenders had an affirmative responsibility to lend in all parts of their service areas. It stipulates that the community lending record of financial institutions is to be considered by federal regulators when they review those institutions for merger, new branch openings, and other important actions. In addition, during those reviews, community advocates have an opportunity to comment on the lending practices of the institutions involved. Studies have shown that this act has been responsible for the investment of billions of dollars in low-income and minority neighborhoods throughout the country (Schwartz 1998).

During the late 1980s and early 1990s the federal government experimented with several new approaches to expanding homeownership among lower-income households. Borrowing an idea from Great Britain, in 1986 the Reagan administration created the Public Housing Homeownership Demonstration to experiment with the sale of public housing units to tenants. Due to the very low incomes of American public housing tenants, however, this approach was found to have very limited potential (Rohe and Stegman 1992). In 1987 the Nehemiah housing program was created to support the development of large new communities of homeowners in central cities. Rachel Bratt discusses this program in more detail in chapter 3. This program was short-lived, however, as in 1990 Congress replaced it and several other housing programs with HOME, a program that offers block

grants to local governments for a wide range of housing activities, including affordable homeownership. Finally, in 1992 the HOPE 3 demonstration program provided funds to local communities to acquire, rehabilitate, and resell single-family properties. This program was not reauthorized when it expired in 1995.

Since the early 1990s federal administrations have made increasing the national homeownership rate a central goal of their urban policies. In 1995 the Clinton administration developed the National Homeownership Strategy, which, through a collaborative effort with key housing industry groups, sought to generate up to 8 million additional homeowners by the year 2000. This strategy relied on a variety of techniques, including expanding federal funds for housing counseling, down payment assistance, and grants to encourage the development of new affordable homeownership units.

For its part, the Bush administration developed the "Blueprint for the American Dream," with a goal of increasing minority homeownership by 5.5 million by 2010 and help close the gap in homeownership rates between white, black, and Hispanic households. The homeownership rates for minority households in recent years has been increasing at a faster rate than that for white households, but there is still a large discrepancy between the two. In 2003, 75 percent of white households owned their own homes, compared to 48.4 percent of black and 47.4 percent of Hispanic households (Joint Center for Housing Studies 2004).

Similar to the Clinton administration's National Homeownership Strategy, the Bush blueprint called for a collaborative effort between the federal government and a variety of housing industry groups. It offered support for what were considered to be the "four most important steps" toward achieving homeownership: (1) educating homebuyers, (2) increasing the supply of affordable homes, (3) providing assistance with down payment and closing costs, and (4) offering financing options (HUD 2002a). One of the main components of this blueprint was a commitment of $200 million annually for down payment assistance to an estimated forty thousand low- and moderate-income households. Moreover, the Bush administration proposed a new tax credit for the production of affordable homeownership units to address the lack of affordable units on the market.

In addition, HUD in recent years has pressured Fannie Mae and Freddie Mac to increase their purchases of mortgage loans to low- and moderate-income families. This pressure has been at least partially responsible for the creation of many new mortgage products that are easier to qualify for and require lower down payments than standard mortagage loans. Other mortgage industry changes, including automated processing and risk-based pricing, in which interest rates are based on the applicant's credit history, have also made it easier and less expensive for low- and moderate-income households to buy homes.

Other examples of an increasing emphasis on affordable homeownership over rental housing are several recently enacted or proposed changes in long-standing affordable rental programs. The Section 8 program, for example, was altered to

allow program participants to use their monthly housing payments to help pay mortgages rather than rent. Several obstacles have kept the number of people using vouchers in this way small, but the numbers are likely to pick up in the future. There have also been proposals for altering the Low-Income Housing Tax Credit program, which has always supported the construction of affordable rental housing, to be used to support homeownership.

We should not, however, lose site of the fact that the main federal support for homeownership comes not in the form of a program but rather through the mortgage and real estate tax deductions in the tax code. Unlike other interest payments, interest paid on mortgage loans are tax deductible. In 2000 this deduction cost the federal treasury an estimated $63 billion, a figure that is several times the amount of federal support provided for all assisted housing programs. The bulk of this subsidy, however, goes to middle- and upper-income homeowners. In fact, many lower-income homeowners receive no benefits, as their standard deductions exceed what they would receive by itemizing deductions. Any discussions of altering this deduction to make it more equitable are met with vociferous opposition from housing industry interest groups.

Trends in Homeownership

Today, a large majority of American households own, rather than rent, their own homes. This has not always been the case. Throughout the twentieth century and continuing into the present one, the homeownership rate has risen dramatically. But this increase has not been steady. Rather, it has been affected by economic cycles, public policy, and the actions of the major players in the housing industry such as mortgage lenders.

From 1890 through 1920 the homeownership rate actually declined as industrialization continued to draw workers to urban areas where rental housing was prevalent (See table 1.1). During the 1920s, however, the homeownership rate increased as the streetcar suburbs expanded. This increase was short-lived. The depression and World War II caused homeownership rates to fall during the 1930s and early 1940s.

Strong interest in homebuying among returning veterans, supported by the VA and FHA programs, resulted in a large jump in homeownership during the latter part of the 1940s and the 1950s. By 1960 the homeownership rate had increased to just under 62 percent, and it gradually rose during the 1960s and

Table 1.1. Homeownership Rates (in Percent): 1890 to 2004

1890	1900	1910	1920	1930	1940	1950	1960	1970	1980	1990	2000	2004
47.8	46.7	45.9	45.6	47.8	43.6	55.0	61.9	62.9	64.4	64.2	67.7	69.2

Sources: U.S. Bureau of the Census, *Census of Housing, 1940, Volume 2, General Characteristics, Part 1, United States Summary,* Introduction, table 3 and http://www.census.gov/hhes/www/housing/hvs/historic/histt14.html.

1970s. The rate dipped during the recession of the early 1980s, but by 1990 it had largely recovered. Fueled by historically low interest rates and changes in lending practices, the homeownership rate steadily increased from 1993 on. By the end of 2003, 68.3 percent of all occupied housing units were owned by their inhabitants.

Homeownership rates, however, differ dramatically by subgroups of the population such as race, ethnicity, age, household type, and income. While minority homeownership has been increasing faster than the rate for whites, overall levels of minority homeownership are still well below the rate for whites (see table 1.2). Differences in the income, family type, and age of white and minority households certainly explain some of this discrepancy, yet a substantial gap still exists when these factors are taken into account (Joint Center for Housing Studies 2004).

As might be expected, homeownership rates also increase with the age of householders up to the "75 and over" age category (See table 1.3). Married couples, who often have two incomes to help pay the mortgage, also have higher homeownership rates than households consisting of non-married persons. Finally, although lower-income households are considerably less likely to own homes, almost half of those making less than 50 percent of the local median income do own their homes.

Table 1.2. Homeownership Rates (in Percent) by Race or Ethnicity: 1994 to 2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total U.S.	64.0	64.7	65.4	65.7	66.3	66.8	67.4	67.8	67.9	68.3	69.0
White	70.0	70.7	71.6	71.7	72.2	73.0	73.5	74.2	74.7	75.1	75.7
Black	42.7	42.2	44.3	46.0	46.6	46.1	47.5	48.4	48.9	48.4	49.5
Hispanic	41.5	42.4	41.2	43.1	44.8	45.1	45.5	46.4	47.4	47.4	47.4
Asian and Other	51.4	50.7	50.3	52.7	53.5	53.4	53.9	53.9	53.9	56.5	59.6

Source: courtesy of *The State of the Nation's Housing 2004*, Cambridge, Mass., Joint Center for Housing Studies of Harvard University.

Table 1.3. Homeownership Rate by Age (in Percent): 1994 to 2004

Age	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Under 35	37.3	38.0	39.1	39.0	39.6	38.8	40.4	40.7	41.3	42.0	42.5
35 to 44	65.0	65.2	64.5	65.8	66.4	66.9	67.1	68.2	68.6	67.9	68.8
45 to 54	75.2	75.1	75.5	75.4	75.5	76.5	76.3	76.6	76.2	76.5	76.7
55 to 64	79.5	80.1	80.4	79.7	80.3	80.7	80.3	81.1	80.9	81.7	81.8
65 to 74	80.2	80.5	82.2	82.3	82.3	83.0	83.6	83.0	83.1	81.9	82.6
75 and older	74.3	74.3	75.1	75.4	75.6	76.8	77.1	77.8	78.4	78.3	78.7

Source: courtesy of *The State of the Nation's Housing 2005*, Cambridge, Mass., Joint Center for Housing Studies of Harvard University.

In the specific case of first-time homeowners, recent data indicate that a majority purchased homes in suburban areas, followed by urban and rural areas. Lower-income, first-time homebuyers, however, are more likely than all first-time buyers to purchase homes in either urban or rural areas than they are to purchase them in suburban areas (Collins 2002). Lower-income, first-time homebuyers are also more likely to purchase older homes. Close to half the units purchased in 1999 had been built before 1950 (Collins 2002). During the years 1997 through 1999, the median value of homes purchased by this group was $65,000, with 21 percent of those homes being manufactured housing.

The essays in this volume present a complex view of the question of affordable homeownership. Historically and culturally, Americans' preference for homeownership over rental occupancy is very powerful and shows no signs of changing. On balance, moreover, the evidence presented by the contributors suggests that support for homeownership among families and policymakers is not irrational. For individuals, the purchase of a home can build personal wealth and expand one's access to credit. For communities, neighborhoods of owner-occupied dwellings can contribute to a wide variety of socially positive outcomes, from increased citizen participation in local government, to lower crime rates, to more constructive behavior among youth. As the popularity of homeownership initiatives such as those led by Habitat for Humanity and the Enterprise Foundation attest, among the subtlest but perhaps most lasting benefits of affordable homeownership programs may be the hopes they seem to inspire among their clients and the bonds they tend to build between aspiring purchasers and the middle-class volunteers who support their efforts.

Despite these tangible and intangible advantages, it is clear that inexpensive homeownership is no panacea for America's housing problems. There are many cases in which the purchase of a home may be a bad business investment. There are also many families who need extensive coaching before they are ready to tackle the often stringent demands of homeownership. For other families, homeownership may always be out of reach financially, no matter how well prepared they may be otherwise. Healthy communities clearly must include a wide variety of rental alternatives to meet the needs of America's diverse households and individuals. Policymakers and housing professionals who seek to encourage homeownership must remain aware of the powerful cultural biases in favor of homeownership which may sometimes obscure the need for a variety of housing tenure options, especially in low-income communities. At the same time, the overall advantages of providing opportunities for owning well-designed, affordable homes seem undeniable. As the authors in this volume make clear, sound housing policy should support Americans' longing for homes of their own with sound, flexible programs that offer a realistic hope for homeownership in America's poorest communities.

PART I

Historical Perspectives

The challenge of sheltering those who cannot adequately shelter themselves is an old one. In Puritan New England, town governments subsidized the care of destitute colonists in private families, where the household patriarch kept a watchful eye on indigent boarders along with his other dependents (Demos 1970). In the nineteenth century, reformers created formidable institutions for society's most troublesome members, which ranged from penitentiaries for the unruly to asylums for the insane. Providing poorhouses or workhouses for those too weak to feed and shelter themselves was part of this movement, and American leaders believed that creating what they hoped would be ideal if artificial communities would transform their inhabitants and turn them into model citizens (Rothman 1971).

When the coming of industrial society gave rise to urban slums that overwhelmed the capacity of old-fashioned poorhouses, a new generation of twentieth-century reformers pinned their hopes on slum clearance and the construction of municipally owned housing projects. Initially praised as farsighted applications of modernist design principles to the issues facing the urban poor, "the projects" came to be seen instead as exacerbating the problems they were intended to cure: crime, violence, unemployment, drug abuse, welfare fraud, family dysfunction, and other forms of social pathology (Kotlowitz 1991). Riveting photographs of the implosion of the Pruitt-Igoe complex in St. Louis became emblematic symbols of disillusionment with the high-rise municipal housing project after 1972. As an anti-project consensus solidified in late-twentieth-century America, the search for alternatives increasingly led to the idea of affordable homeownership for the poor. What can the history of social policy tell us about this new approach to a very old problem?

For one thing, it is clear that no single solution—including affordable homeownership—will be appropriate for all times and places. Each culture and

each historical epoch will approach the problem of housing for the poor in the way or ways that seem most compatible with its own values and circumstances. It is also clear that society's values and circumstances are not fixed or innate, and that interested public actors—builders, politicians, civil servants, publicists, taxpayers, and the poor themselves—will actively struggle to shape public perceptions and competing versions of what a given era may accept. The story of how public actors have worked in the past to create popular impressions and shape conventional wisdom can be very instructive to citizens and policymakers who struggle in the present to evaluate competing claims for the value of contemporary policies for affordable homeownership. And finally, the story of past failures can guide us in the creation of more effective policies for the future.

The historical section of this volume sets the stage for what follows with two chapters that reflect the twentieth-century experience with affordable homeownership policies. While the ownership of real property has long been a popular test of social worth in the United States, Lawrence Vale reveals that homeownership has not been a constant feature of American urban history, even for families with average incomes. In the 1920s, when homeownership rates were around 45 percent, a concerted campaign by Secretary of Commerce Herbert Hoover and the homebuilding industry vigorously inculcated the idea that homeownership was the ideal tenure for every American family. Depression and war ensured that his campaign would not show clear empirical results until the 1950s, but the post–World War II era saw homeownership rates rise to include almost 65 percent of American families. Vale demonstrates that the American cultural preference for homeownership is not innate or essential, but has been part of a concerted process of culture building over many decades by highly interested parties. This hardly means that policymakers can now easily ignore popular preferences for homeownership; but it demonstrates how homeownership came to be seen as the "natural" American solution to housing policy, and why no single approach should be regarded as inevitable.

Taking a more specific approach, Rachel Bratt explores the Section 235 program, an early experiment in homeownership policy that critics widely dismissed as a failure. By comparing Section 235 to private, nonprofit ventures led by Habitat for Humanity, the Nehemiah program, and (in less detail) the Enterprise Foundation and the Neighborhood Reinvestment Corporation, Bratt uncovers the features that made Section 235 so unsuccessful. She argues powerfully that the disappointing record of Section 235 was not inevitable, that public affordable homeownership programs are still badly needed, and that new programs can succeed if policymakers pay careful attention to previous experience.

In short, Vale and Bratt model how careful attention to the past can sensitize practitioners to the origins of the public pressures on housing policy and help them perfect new policies for the future.

2

The Ideological Origins of Affordable Homeownership Efforts

LAWRENCE J. VALE

The high rate of homeownership in the United States has been neither an accident nor an inevitable outcome of land availability and widespread prosperity. Rather, it has been nurtured by generations of public policy, which were in turn preceded by concerted efforts to instill an ideologically grounded belief in the moral value of the owned home (Handlin 1979; Wright 1980, 1981; Hayden 1981, 2004; Jackson 1985; Fishman 1987). Only by examining the various campaigns to make homeownership more widespread—which antedated the more famous policy efforts of the 1930s and 1940s—can one understand the cultural underpinnings of homeownership growth in the United States. Similarly, the post-1945 expansion of homeownership in the United States is inextricable from other policy decisions about fair housing, which eventually helped to overcome the pre–World War II segregationist assumptions of the Federal Housing Administration's mortgage lending practices. Here, too, any convincing explanation of affordable homeownership emerges from an understanding of American cultural history.

American government involvement in housing long predates the famous New Deal initiatives, and has taken up a dual challenge. On the one hand, since the seventeenth century, local governments have intervened when necessary to cope with the indigent, supporting local almshouses and other forms of near-incarceration for those unable to sustain themselves economically. More pervasively, however, government involvement in housing has taken the form of rewards, aiding a variety of upwardly mobile Americans judged to be worthy. This involvement has included a variety of land grants to veterans during the nineteenth century, and is epitomized by the Homestead Act of 1862, legislation intended explicitly to reward those who worked the land with the prize of homeownership. The reward tradition became embedded in twentieth-century

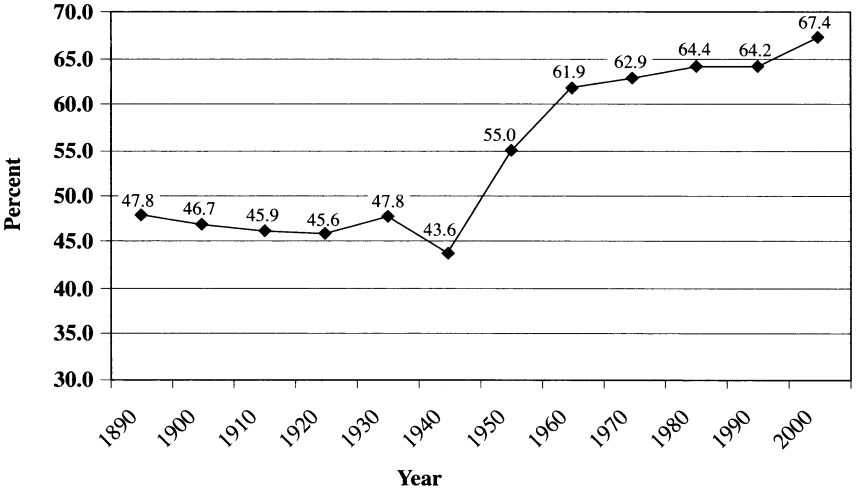


Figure 2.1. Homeownership growth in the United States. By 1890, more than 40 percent of American households already owned their own homes. Homeownership rates stagnated until the 1920s, then rose modestly, plummeted during the Great Depression, and soared rapidly after World War II. Source: United States Census, 1890–2000.

tax legislation, skewed to provide lucrative benefits to those who owned homes. Similarly, the advent of comprehensive zoning—spread across the nation during the 1920s—enshrined the single-family home with special prominence, again safeguarding a preference for certain kinds of dwellings in certain kinds of places for certain kinds of people.[1]

Homeownership is a deeply embedded cultural preference in the United States, but this is so in part because it has frequently been prodded by both public policy and private organizations. Seen from the present day—a time when more than two-thirds of American households own their own homes—the political appeal of additional efforts to extend homeownership is wholly understandable. Yet now as before, it is important to examine the ways in which support for homeownership has been socially constructed, and frequently contested.

In 2001 the National Association of Realtors (NAR) exulted that it had "broke[n] into the top ten on *Fortune* magazine's list of the most powerful lobbying organizations"—thereby, as NAR put it, "underscoring the association's mighty clout" (NAR 2001). *Fortune*'s survey of members of Congress, staffers,

1. For an extended discussion of the reward systems and coping methods of early American government engagement with housing policy, see Lawrence J. Vale, *From the Puritans to the Projects: Public Housing and Public Neighbors* (Cambridge: Harvard University Press, 2000), chaps. 1–2.

senior White House aides, and a variety of lobbyists—conducted jointly by Republican and Democratic polling firms—assessed the political influence of eighty-seven major trade associations, labor unions, and interest groups. The realtors' group, ranked ninth overall, trailed only the Association of Trial Lawyers and the National Beer Wholesalers Association among the most influential trade associations. The power of the NAR is not synonymous with a defense of homeownership, of course, but it is a reminder that decisions about housing policy are products of politics, culture, and history.

Contemporary policy debates both revisit and descend from earlier debates, so it is worthwhile to consider the broader historical trajectory of the American homeownership impulse. The National Association of Realtors is the successor organization to the National Association of Real Estate Exchanges, established in 1908 and renamed the National Association of Real Estate Boards (NAREB) in 1916. NAREB was formed to influence taxation policy on property owners and to enhance the economic benefits of homeownership. In 1920 NAREB successfully lobbied Congress for passage of the legislation enabling the mortgage interest tax deduction, one of the key policy supports behind extended homeownership (Siudzinski and Heller n.d.).

The roots of the homeownership drive, buried deeply in Jeffersonian notions about yeoman farmers and the nation building of the early American republic, reached the surface most visibly during the 1920s. It is here, in the government's embrace of homeowning initiatives—undertaken in close collaboration with the housing and construction industry—that the ideological underpinnings of homeownership reached full flower.

By 1920 more than 45 percent of American households already owned their own homes, so the interwar period hardly signaled the origins of homeownership growth. Rather, the period marked a revival and an expansion of rhetorical support for such ownership, even as actual growth in homeownership remained relatively modest (and, during the depression years, actually declined). To a nation founded on the principle that real property ownership was the basis for good citizenship, such rearticulation of the importance of homeownership is hardly surprising. What was new in the 1920s, however, was the concerted push by both government and private industry to apply the preference for ownership to the industrial city and its suburban environs.

From Tenement Reform to Homeownership Advocacy

Throughout the nineteenth century, urban critics lamented and lambasted the conditions in densely built tenement districts. Reformers such as Jacob Riis exposed the horrors of tenement conditions to a wide audience through the medium of documentary photography, while other Progressive Era housing activists—most

notably Lawrence Veiller—translated outrage into regulatory reform. Riis and Veiller campaigned mightily against the perceived evils of multifamily housing and extolled the virtues of dwellings that were both "private" and "individual." Both men had in mind a very clear alternative to the slum: they wished to transform it into a district of private homes. Each believed that good American citizenship could come only with living in a single-family dwelling.

Riis invoked the rural homesteader as the ideal incarnation of the mobile and independent American, arguing that "a shanty is better than a flat in a cheap tenement, any day." By contrast, "the tenement itself, with its crowds, its lack of privacy, is the greatest destroyer of individuality, of character. As its numbers increase, so does the element that becomes criminal for lack of individuality and the self-respect that comes with it" (Riis 1900, 22, 36, 33). For Riis, the good home had to be "separate, decent and desirable" (Riis 1971 [1890], 1).

The writing of Lawrence Veiller carried little of the emotional appeal of Riis's but reflected many similar assumptions about slums and slum dwellers. Veiller began studying the problems of tenements while secretary of the New York Tenement House Commission of 1900. In this capacity he drafted a large part of the 1901 New York Tenement House Law. From there, Veiller sought to broaden the scope of reform beyond New York. With his landmark publication *A Model Tenement House Law* (1910), Veiller put forth a general scheme, adaptable to any city; with *A Model Housing Law* (1914, revised 1920), he applied his specifications to all forms of dwellings, from tenements to single-family homes. Here his goal was "to promote the health, safety and welfare of the people by regulating the light and ventilation, sanitation, fire protection, maintenance, alteration, improvement and use of dwellings; to define the classes thereof, to establish remedies and fix penalties for the violation thereof" (Veiller 1920, 27). The 1901 law and the two "model law" books became the source for nearly all American housing legislation in the first part of the twentieth century.

Veiller categorized dwellings into three "classes": (a) private dwellings, (b) two-family dwellings, and (c) multiple dwellings. From this typology alone, one can observe that he believed only single-family homes to be "private." His broader aim was not, however, to establish gradations of privacy but to eliminate "class c" buildings completely. With his plethora of rules, regulations, and restrictions he explicitly wished to make such housing economically unfeasible to build:

> By means of this plan of classification it is possible to encourage the construction of private dwellings and two-family houses and to discourage the erection of tenement houses and other forms of multiple dwellings by making the provisions relative to the latter more stringent than those affecting the former classes. . . . The effect of these more stringent requirements in increasing the cost of construction

> may, however, so discourage the construction of buildings of this kind as to practically stop their erection. (1920, 31, 33, 282)

In seeking to eliminate the multiple dwelling, Veiller sought further to establish the single-family home as the goal of every American family.

Such legislative preference for single-family homes—soon also to be championed in zoning codes—provided the backdrop for the next logical step: direct efforts to extend the benefits of homeownership. And in keeping with the earlier disparaging opinion of low-income renters, the advancement of homeownership ideals continued to be coupled with moral disdain for those who rent.

Hoover and Homeownership

Herbert Hoover is central to the story of the revival of interest in homeownership. As secretary of commerce from 1921 to 1928, and as president the following four years, Hoover served as the most visible champion of a wide variety of movements that connected the virtues of citizenship with the necessity of homeownership. It is here, in an arsenal of national efforts that wholly warrants use of the term "propaganda," that homeownership first gained prominence as a *moral* issue rather than a financial calculation.

Figure 2.2. Herbert Hoover during his tenure as secretary of commerce, 1921 to 1928. Source: *The Memoirs of Herbert Hoover: The Cabinet and the Presidency, 1920–1933* (New York: MacMillan, 1951).

In the Red Scare period that followed the First World War, enhanced homeownership became touted as a vital alternative to Soviet-style collectives, a kind of social glue that would stabilize American society—block by block, city by city—by protecting it from radicalizing influences. Various civic groups and trade organizations consistently stressed the importance of ownership for good citizenship, declaring that "socialism and communism do not take root in the ranks of those who have their feet firmly embedded in the soil of America through homeownership," that "ownership of homes is the best guarantee against communism and socialism and the various bad 'isms' of life," and that the homeowner's "type of citizenship is an antidote for disintegrating influences, communistic or otherwise" (cited in Dean 1945, 4, 41; Southern Pine Association 1919, 5). As Janet Hutchison comments, "This new governmental involvement that championed the private dwelling for Americans intensified the significance of property as a primary factor for evaluating the citizen's allegiance to the state" (Hutchison 1997, 187).

Own-Your-Own-Home Campaign

The Own-Your-Own-Home Campaign was initially housed in the U.S. Department of Labor, but it was inspired by a commercial Own Your Own Home crusade launched by the National Association of Real Estate Boards in 1917 (Dunn-Haley 1995, 104). The federal government greeted the end of the Great War with an urgent push for enhanced homeownership opportunities. Seen as a means to promote civic, social, and business betterment by reducing the incidence of "slackers" in the workplace, promotion of homeownership could be treated as a patriotic duty. In 1919, fifteen years before large-scale government involvement in mortgage finance made the prospect of homeownership more plausible for many Americans, the Own-Your-Own-Home Campaign insisted that financing would "enable every family, whether rich or poor or well-to-do to become homeowners." The U.S. Department of Labor's promotional pamphlet set forth a variety of ways for localities to promote homeownership: newspaper ads featuring homes; an essay competition or debate on the merits of homeownership; distribution of "We-Own-Our-Own-Home" buttons to schoolchildren; provision of "We-Own-Our-Own-Home" banners; encouragement to local restaurant chefs to prepare "We-Own-Our-Own-Home" dishes; introduction of a "We Own-Our-Own-Home" lecture series at local universities; and composition of "We-Own-Our-Own-Home" waltzes and songs. The materials also included a sample program for a "We-Own-Our-Own-Home" campaign opening, which included a wedding on the lawn of a recently erected bungalow, and a sermon on the merits of the Own-Your-Own-Home movement. Meanwhile, the government distributed more than 2 million posters in workplaces, all touting the virtues of homebuilding and homeowning (Department of Labor 1919, 9–38, 45; Dunn-Haley 1995, 107–9).

Herbert Hoover inherited the Own-Your-Own-Home movement when he became secretary of commerce in 1921 and proceeded to make the most of this initiative, setting it in the broader context of efforts to promote homebuilding and homeownership which he would champion over the next decade. The new Division of Building and Housing shifted shelter questions from a Labor Department concern for industrial workers to a Commerce Department initiative that appealed to his engineer's mindset. Throughout the 1920s the building industry operated in close concert with the federal government, as homeownership in the United States increased by more than 3 million households during this decade. In 1921 Hoover's Department of Commerce issued a small book titled *How to Own Your Own Home.* Although the book suggested that families should spend no more than twice their annual income on the cost of a home, it also opined that such households could afford to spend more money on the carrying costs of a home than they spent on rent, since homeownership also served as a form of savings. The book paid little attention to the neighborhood or the financial considerations involved in home purchase, and instead proffered broad encouragement: "Most men and women who buy a house have never done it before, and are usually unskilled, as people generally are in the things they do but once or twice in a lifetime. But lack of experience should deter no one." Still, Hoover acknowledged in his *Memoirs*, homebuilding and homeownership seemed at risk due to high costs and poor design. At base, Hoover worried that "the sentiment, 'Own Your Own Home,' was losing force" (Department of Commerce 1921; Hoover 1952, 92).

Better Homes in America

As commerce secretary, Hoover signed on as president of the "Better Homes in America" movement soon after taking office, while Vice President Calvin Coolidge served as chairman of its advisory council. Initiated by Marie Meloney, the editor of *The Delineator* (a Butterick Company publication with more than a million readers), the Better Homes effort was inspired directly by the Own-Your-Own-Home Campaign, and Hoover welcomed the chance to endorse it. Although it was ostensibly a private voluntary organization, Hoover created Better Homes in America and personally raised funds to support it from private sources. "As a result of the propaganda of Better Homes," he noted with pride, "the Public Printer sold millions [of] pamphlets telling how to locate, acquire, finance, and build a home" (Hutchison 1997, 192–93; Radford 1996, 51; Hoover 1952, 92–93). Hoover extolled homeownership as a pillar of family life, regardless of family income, writing in *Child Welfare Magazine* that "certain clear obligations rest upon us of the present generation. It behooves parents to achieve homeownership so far as they are able." By contrast, he warned, "too great reliance on rented dwellings tends in the modern industrial

Page 16 THE DELINEATOR, October, 1922

BETTER HOMES IN AMERICA

Announcing the inauguration of a nation-wide campaign conducted in cooperation with national and state officials

Henry C. Wallace, Secretary DEPARTMENT OF AGRICULTURE

Calvin Coolidge VICE-PRESIDENT OF THE UNITED STATES

Herbert Hoover, Secretary DEPARTMENT OF COMMERCE

C. W. Pugsley, Ass't Sec. DEPARTMENT OF AGRICULTURE

W. H. McMaster, Governor SOUTH DAKOTA

D. W. Davis, Governor IDAHO

E. P. Morrow, Governor KENTUCKY

H. L. Davis, Governor OHIO

John M. Gries, Ass't Sec. DEPARTMENT OF COMMERCE

S. R. McKelvie, Governor NEBRASKA

T. E. Campbell, Governor ARIZONA

T. C. McRae, Governor ARKANSAS

C. H. Cox, Governor MASSACHUSETTS

OCTOBER ninth to fourteenth will be Better Homes Week for America. Model small homes will be furnished and equipped in several thousand American cities.

There had been already a few "Better Homes" exhibits. The Editor of THE DELINEATOR last Spring visited some of these.

As the result of observations made at that time, we decided to dedicate THE DELINEATOR for fifty years a service magazine for American women, to a definite, constructive Better Homes Campaign to be directed by the best minds in the nation.

The foremost men in America were asked to name an advisory council which is to direct the policies and activities of this movement. The members of this council are:

Calvin Coolidge, Vice-President of the United States; Herbert Hoover, Secretary of Commerce; Henry C. Wallace, Secretary of Agriculture; C. W. Pugsley, Assistant Secretary of Agriculture; James John Davis, Secretary of Labor; John M. Gries, Assistant Secretary of Commerce; Dr. John James Tigert, United States Commissioner of Education; Dr. Hugh S. Cumming, Surgeon-General, United States Public Health Service; Julius H. Barnes, President Chamber of Commerce of the United States; John Ihlder, Director Housing Conditions, Chamber of Commerce of the United States; John Barton Payne, Chairman Central Committee, American Red Cross; Donn Barber, Fellow American Institute of Architects; Livingston Farrand, Chairman National Health Council; Mrs. Thomas G. Winter, President General Federation of Women's Clubs; Mrs. Lena Lake Forrest, President National Federation of Business and Professional Women's Clubs.

The first result of the council's efforts is a Better Homes primer containing the plan and all the answers to the problems connected with a Better Homes Exhibit in your town.

At the request of the Editor of THE DELINEATOR more than half of the Governors of the Union are cooperating with the council to inaugurate Better Homes demonstrations in their States. They will set aside the week of October ninth to fourteenth as Better Homes Week. Each has agreed to appoint one housewife in every county seat or trading community who shall form a committee to study the advisory council's primer and to develop a model home which will be kept open to the public for six days.

It has been a tremendous task, this one of setting up a nation-wide organization to assure in thousands of communities adequate Better Homes demonstrations accessible to the greatest possible number of American housewives. This issue of THE DELINEATOR is going to press well before the completion of the task, but the spirit of public service displayed by the many men and women who as individuals or as merchants and manufacturers are already hard at work on the problem promises a very remarkable quantity and quality of Better Homes demonstrations this October and a complete blanketing of the nation with them in October, 1923.

For this is not a *one-time* program. Those giving their time and thought and money to it are determined to carry it on year by year so that if possible every one of the twenty million housekeepers of America shall have access to a working laboratory from which to draw inspiration for the betterment of the family.

If you desire to participate in the development of a model-home exhibit in your community, write to the Bureau of Information, THE DELINEATOR, and we shall be glad to put you in touch with the organization nearest your home.

A NATION OF HOME-OWNERS

By CALVIN COOLIDGE

Vice-President of the United States

WE SPEND too much time in longing for the things that are far off and too little in the enjoyment of the things that are near at hand. We live too much in dreams and too little in realities. We cherish too many impossible projects of setting worlds in order which are bound to fail. We consider too little plans of putting our own households in order which might easily be made to succeed. A large part of our seeming ills would be dispelled if we could but turn from the visionary to the practical. We need the influence of vision, we need the inspiring power of ideals, but all these are worthless unless they can be translated into positive actions.

The world has been through a great spiritual and moral awakening in these last few years. There are those who fear that this may all be dissipated. It will be unless it can be turned into something actual. In our own country conditions have developed which make this more than ever easy of accomplishment. It ought to be expressed not merely in official and public deeds, but in personal and private actions. It must come through a realization that the great things of life are not reserved for the enjoyment of a few, but are within the reach of all.

There are two shrines at which mankind has always worshiped, must always worship: the altar which represents religion, and the hearthstone which represents the home.

These are the product of fixed beliefs and fixed modes of living. They have not grown up by accident; they are the means, deliberate, mature,

Figure 2.3. A page from the magazine *The Delineator,* directed at American women, introduces them to the "Better Homes in America" campaign. Led by President Hoover, with Vice President Calvin Coolidge as chairman of its advisory council, the Better Homes movement engaged many national leaders. Source: *The Delineator*, October 1922, Hoover Institution Archives, "Better Homes" collection, Box 71.

state to inadequate housing and the demand for state participation in housing" (Hoover 1927, 357–58; Hoover 1922, 17).

By 1929 the Better Homes campaign boasted 5,960 local chairmen, including "388 Negroes," and eleven states (mostly in the South) appointed separate Negro statewide chairmen, indicative of a desire to spread the message of quality homes in a broad, if segregated, manner (Halbert 1929). By 1931, with 7,200 local committees and 47 statewide committees established, many states could "justly boast that they contained no community that has not been reached in some way by the Better Homes program" (Ford 1931, 223). The *Better Homes Manual*, issued in 1931, instructed prospective homeowners about homeownership and financing, methods of keeping the cost of homeownership down, site selection,

Figure 2.4. Campaigning for "Better Homes" in Louisville, Mississippi. By the late 1920s, the Better Homes in America movement had spread its slogans across the United States. Source: Hoover Institution Archives, "Better Homes" collection, Box 71, "Civic Improvement" scrapbook.

architectural style selection, and building considerations. The manual praised homeownership as "both the foundation of a sound economic and social system and a guarantee that our society will continue to develop rationally as changing conditions demand." It echoed the sentiments of the real estate industry in forging the inextricable link between ownership and moral quality:

> A family that owns its home takes a pride in it, maintains it better, gets more pleasure out of it, and has a more wholesome, healthful, and happy atmosphere in which to bring up children. The homeowner has a constructive aim in life. He works harder outside his home, he spends his leisure more profitably, and he and his family live a finer life and enjoy more of the comforts and cultivating influences of our modern civilization. A husband and wife who own their home are more apt to save. They have an interest in the advancement of a social system that permits the individual to store up the fruits of his labor. As direct taxpayers they [partake] of the finest instincts and the greatest of inspirations of our people. (Halbert 1931, 3)

Clearly, the "better" home needed to be an *owned* home.

In turn, through zoning, government action sought to safeguard such "better" homes. In his *Memoirs*, Hoover made the connection explicit and took full credit: "We inaugurated nation-wide zoning to protect home owners from business and factory encroachment into residential areas. We called a national conference of experts who drafted sample municipal codes for this purpose. When we started, there were only 48 municipalities with zoning laws; by 1928, there were 640" (Hoover 1952, 94).

Real Estate Industry Support for Homeownership

The National Association of Real Estate Boards played a central role in the burgeoning efforts to shore up homeownership. Its chief propaganda effort for 1922 took the form of a twenty-page illustrated booklet titled *A Home of Your Own* (Folsom 1922). For NAREB, the decision to buy a house was no mere financial calculation but "A QUESTION OF LIFE ITSELF." Home purchase, the realtors argued, brings "a new set of conditions that change your whole relation to the world and put you in line *for* success instead of *against* it." Failure to purchase a home signaled nothing short of financial stupidity, since "there are few persons in any ordinary walk of life who will not EARN, SAVE and HAVE far more money when they become home owners than they could as renters." For NAREB, homeownership was not some future goal, attainable only after careful investment of resources; rather, NAREB's booklet asserted, "a home of your own should be your very first investment," for home purchase would bring an instant and sustainable decrease in a family's cost of living and an increase in its savings.

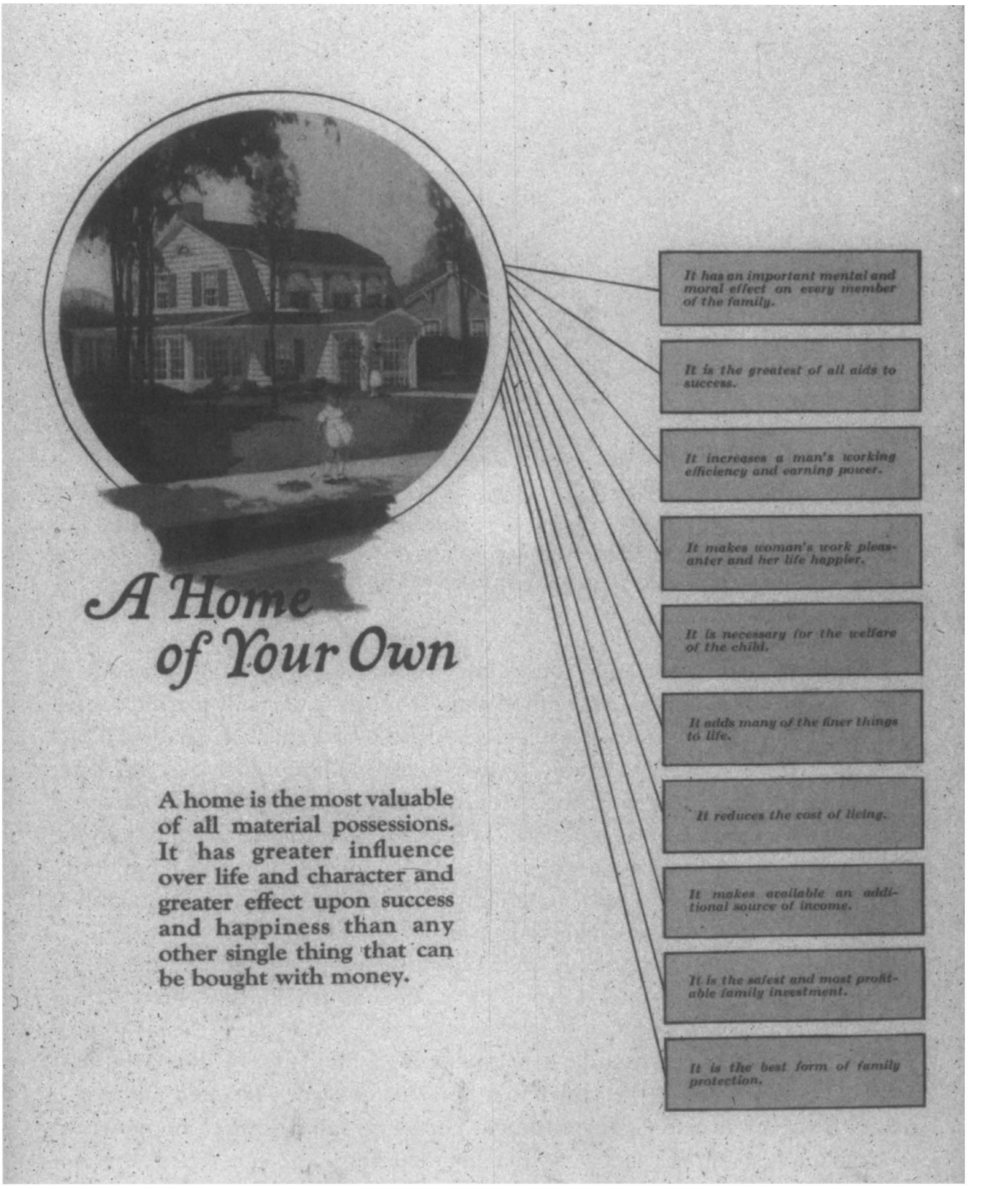


Figure 2.5. A page from the twenty-page illustrated booklet *A Home of Your Own.* In 1922, the National Association of Real Estate Boards (NAREB) articulated a wide-ranging propaganda campaign for the benefits of homeownership. Source: M. W. Folsom, *A Home of Your Own* (Chicago: National Association of Real Estate Boards, 1922).

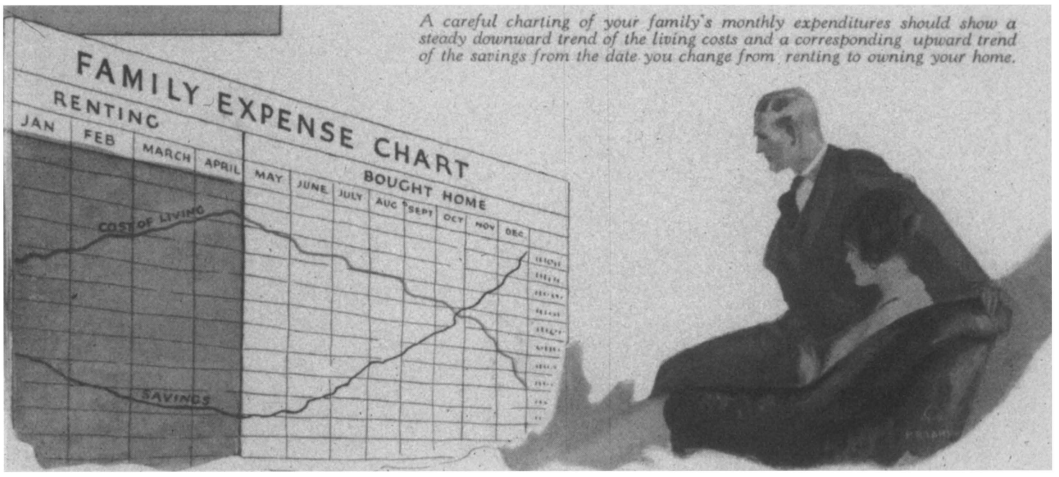


Figure 2.6. *A Home of Your Own* booklet charts the gains from homeownership for prospective homebuyers. NAREB's 1922 manifesto argued that the shift from renting to owning a house would immediately transform a family's economic well-being. Source: M. W. Folsom, *A Home of Your Own* (Chicago: National Association of Real Estate Boards, 1922).

But financial matters hardly constituted the main push of NAREB's booklet. Not just a sensible economic act, homeownership more significantly marked a social and moral milestone. Homeownership, in NAREB's view, entailed "building moral muscle," because "becoming a home owner sends you up in the social scale. Better things are expected of you. You expect them of yourself." NAREB implied the moral and even sexual inadequacy of renters by noting that only homeownership "puts the MAN back in MANHOOD" and enables one to be "completely self-reliant and dominant." Renting, by contrast, was "anti-family" since it allowed "others the control of the place that is the center of your whole personal and family life."

In this view, women gained as well: "To install your wife in a home of her own is a convincing demonstration of your affection and consideration for her comfort and happiness." Suitably installed, this wife would gain "the joy of possession that relieves housework of its monotony." Similarly, NAREB's booklet argued, "every child has the RIGHT to a home of its own. The child raised in a rented house or apartment is CHEATED." The single-family-owned home served to keep children "off the streets" by making their home and yard "their center of interest." Districts of such homes permitted "lasting friendships among worthwhile neighbors" while sparing residents contact with "rented houses in which many families of unknown habits have lived." These private homes promised protection from "the unwholesome and not infrequently contaminating ideas of the floating classes that predominate in the close-in rental districts" (Folsom 1922). In short, as typified by this booklet, the propaganda of the home sales and

homebuilding industry and its many allies in government constantly reiterated the moral superiority of owned homes over rented apartments.

This ideology of homeownership, moreover, made clear that only the *single-family-owned* home could fully deliver the complete range of advantages. Even as various schemes for cooperative ownership in apartments gained favor in some cities, critics responded with suspicion. Although touted as a way to get out from under unscrupulous landlords and praised for increasing the range of affordable ownership options in expensive urban markets, cooperative ownership had its drawbacks. As etiquette maven Emily Post noted in 1930, this tenure status occupied a shaky middle ground that she called "tenant owner." Residence in "any communal dwelling," she opined, "is beset with far greater danger than is possible to one who merely buys a house." In short, she concluded, "those of limited funds and inexpert knowledge should avoid even approaching—just as a mouse should avoid approaching the cheese in a trap" (Post 1930, 130).

Touting Small Houses

Spared the dangers of cheesy apartments, would-be single-family homeowners faced many alternatives. Throughout the 1920s various lumber companies,

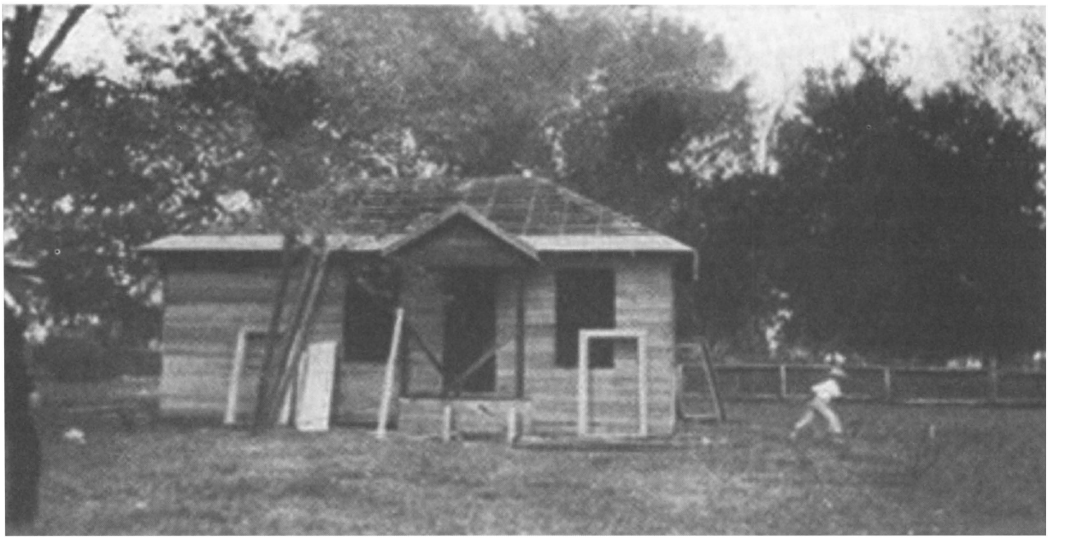
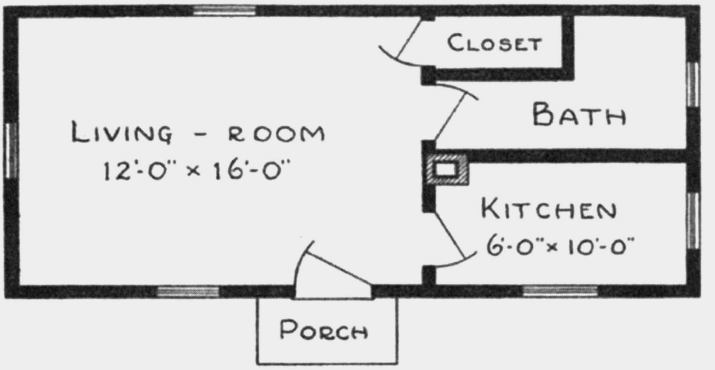


Figure 2.7. Big gains from small houses. Small houses, like the one pictured here, gained favor in the 1920s, touted by architects, lumber companies, and trade associations. Source: John M. Gries and James Ford, eds. *President's Conference on Home Building and Home Ownership*, vol. 5, *House Design, Construction, and Equipment* (Washington, D.C., President's Conference on Home Building and Home Ownership, 1932), 100.



House No. 1, Dallas, Texas.

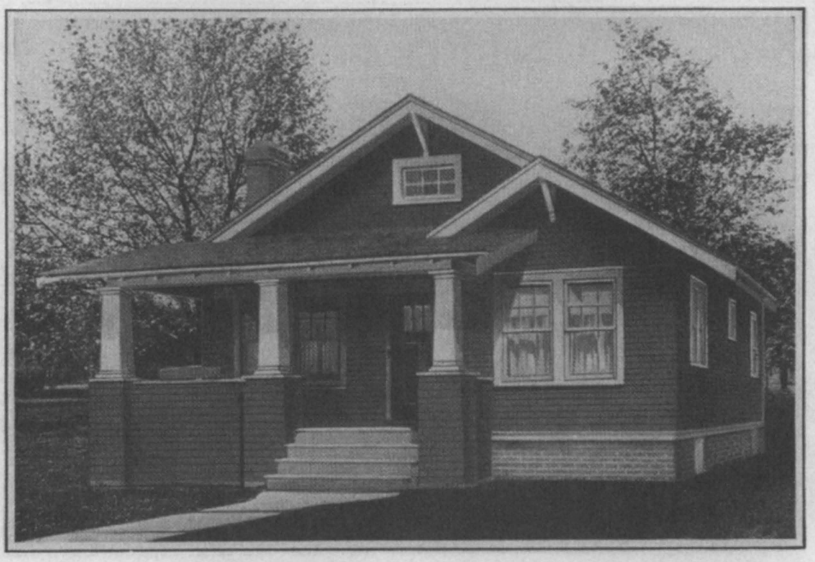
Selling price	$1,950	Floor space	rear porch, living-room, kitchenette, bathroom
House price	1,550		
Lot price	400	Heating	none—piped for gas
Lot size	50′ x 125′	Garage	frame, detached, 1-car
Description	bungalow, frame		

Figure 2.8. The plan of the tiny cottage shown in Figure 2.7 reveals it to be less than four hundred square feet. Source: Gries and Ford 1932, 100.

architects, and trade associations developed model plans for a vast array of inexpensive small houses. The Architects' Small House Service Bureau, established in 1920, provided plans and specifications via mail order, issued a monthly magazine called *The Small Home*, and predictably gained the formal endorsement of commerce secretary Hoover (Hutchison 1997, 196–98). Many private building materials companies, less concerned with the employment of architects, issued entire catalogues of small homes, complete with plans and the possibility of ordering all materials necessary to build and furnish the house. In 1920, for instance, the catalogue for the Bennett Lumber Company featured sixty-nine different named models, from the "Avon" to the "York". The preface to the catalogue reminded prospective homebuilders that home dwelling was "the strong primal instinct," and that only "the owned private home" could provide "big dividends [to] family happiness and contentment" (Ray H. Bennett Lumber Co. 1993 [1920], 3, 27; Weiss 1988).

The New York Committee of Better Homes in America sponsored "America's Little House," jarringly located on Park Avenue at Thirty-ninth Street, amidst a forest of highrises. Touting it as "the only home in America which has its own broadcasting studio!" the Columbia radio network aired a variety of home-related programs, including a weekly "Better Homes" segment, as well as speeches from luminaries ranging from Mayor Fiorello LaGuardia to Robert

Bennett Homes
Better-Built Ready-Cut

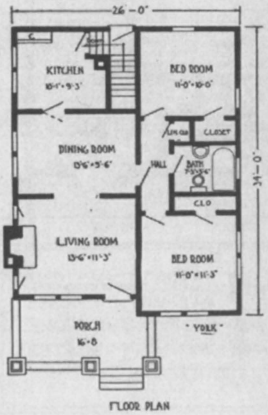


York

26 ft. x 34 ft. over all
5 Rooms and Bath

Here is a type of bungalow rightfully popular in the suburban districts of America's big cities. Its general appearance is quite substantial, yet broken roof lines, the careful placing and design of windows, the selection of porch pillars and outside trim give a pleasing balance and harmony one never tires of.

Inside this home you are at once attracted by the warm hospitality of the living room. Two windows at front and side each let in all the sunlight you want. You may have your prized open fireplace; and there's a casement window at the side, underneath which your bookcase may go. Just beyond you catch a glimpse of the dining room. Through a door to the right, but out of sight, are the two bedrooms—one with four windows! There are large closets, a linen closet, and the usual bath. The kitchen is furnished with our celebrated cabinet; a door leads to a grade entrance and to the cellar.



FLOOR PLAN

There's a wonderful porch—wide and deep, with room for many a lounging chair, a veranda-swing, or any comfort you may elect.

Owners of the York are most enthusiastic about its individuality, its livableness, its economy both in first and in upkeep cost.

SPECIFICATIONS

Ceiling height first floor approximately 9 ft.
Girders 6 in. x 8 in.
First floor joists 2 in. x 8 in.
Ceiling joists 2 in. x 4 in. Rafters 2 in. x 6 in.
Front door—our "Conesus," of solid Chestnut, 3 ft. x 6 ft. 8 in. and 1¾ in. thick, glazed with clear glass. *See pages 36–37.*
Prices on oak floors and trim for living room and dining room, maple flooring in kitchen, quoted on application.
Our kitchen cupboard No. 2, medicine cabinet and linen closet included in the selling price. *See pages 36–37.*

See pages 8–9 for general specifications.

EVERY ITEM CORRECT

Beaver Dams, N. Y.
Feb. 27, 1918.

Gentlemen:—

Lumber received and unloaded. Every item correct, and we are more than pleased with the quality. Thank you for your *promptness* and the *square deal* given us.

J. R. S.

¶ IN THE HAPPINESS OF A BENNETT HOME LIES THE HEALTH AND STRENGTH OF THE WHOLE FAMILY.

27

Figure 2.9. A model small house from the 1920 Bennett Lumber Company catalog of small home designs. This one is the "York." Source: *Bennett Homes: Better Built Ready-Cut*, Catalog No. 18 (North Tonawanda, N.Y.: Ray H. Bennett Lumber Co., Inc., 1920).

Figure 2.10. America's "Little House." The New York branch of Better Homes in America sponsored a small house with a broadcasting studio incongruously slotted into the East Side of Manhattan. Source: Hoover Institution Archives, "Better Homes" collection, Box 71.

Moses. Nearly 200,000 people bought admissions tickets to visit the Little House. As Karen Dunn-Haley observes, "America's Little House sat meekly beneath the skyscrapers and office buildings of its Park Avenue site," and thereby "symbolized the importance of the home." "With its garage transformed into a CBS studio of modern broadcasting equipment and its kitchen holding the most modern of appliances," the Little House "simultaneously educated the public regarding present and future home technology and evoked an American nineteenth-century homesteading tradition" (Dunn-Haley 1995, 199, 205).

Model homes, sponsored by public utility companies, private consumer product companies, and consumer "home magazines," proliferated across the country. Materials organizations in Texas muscled in with a campaign to make Houston more "brick-minded." The Cleveland Clay League stressed surprising cost advantages with the slogan "Brick for the Same Down Payment." The lumber industry lobbied heavily for homebuilding on many fronts, touting not just the qualities of wood products but, more fundamentally, the quality of citizenship relating to wooden homes (Dean 1945, 19–36). Claiming that the "interest of the lumber industry in improving small house architecture in America" runs "far deeper" than mere "commercial gain," the National Lumber Manufacturers Association argued that "the man who owns and loves his home can usually be depended upon to practice the virtues of citizenship," whereas "the discontented pessimistic elements in our citizenship . . . come from the thousands who do not own their own homes." The solution, according to the lumbermen, was for "the concerted action of industrial and commercial groups" to instill in renters "habits of economy and thrift" (National Lumber Manufacturers Association 1923, 2).

By the end of the 1920s, government sponsorship of housing organizations encompassed a broad cross-section of professional, voluntary, and commercial groups—all dedicated to extending homeownership, and to keeping government out of the business of providing European-style housing subsidies. It was in this context that Herbert Hoover launched the President's Conference on Home Building and Homeownership.

President's Conference on Home Building and Homeownership

As secretary of commerce and then as president, Hoover oversaw the planning of some three thousand well-publicized conferences on a wide variety of topics, aimed at alerting a broad cross-section of the American public to particular national problems and potential solutions (Wilson 1975, 82, 110).[2] Of these three thousand ventures, however, few seem to have carried either the personal interest

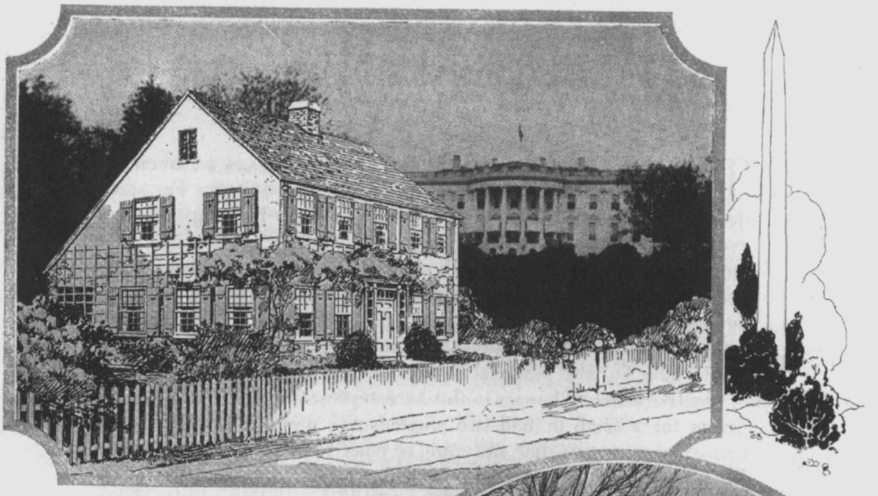
2. Nearly 1,200 of these conferences were held on ways to enhance various forms of standardization, focusing on the elimination of waste in the design, production, and distribution of various industrial products.

Figure 2.11. A page from the eleven-volume published findings of the President's Conference on Home Building and Home Ownership. As the Great Depression deepened, President Hoover urged the country to rely on homeownership. Source: John M. Gries and James Ford, eds., *President's Conference on Home Building and Home Ownership*, vol. 11, *Housing Objectives and Programs* (Washington, D.C., President's Conference on Home Building and Home Ownership, 1932), v.

or the staying power of the one that Hoover devoted to the problems of "Home Building and Homeownership," held during late 1931 after fifteen months of careful planning (Hoover 1952, 256).

Hoover's speech introducing the conference set out the full litany of homeownership benefits, extolling owned homes as each family's "castle in all that exquisite sentiment which it surrounds with the sweetness of family life." The homeownership "aspiration," he continued, "penetrates the heart of our national well-being. It makes for happier married life, it makes for better children, it makes for confidence and security, . . . it makes for better citizenship. There can

The Most Talked-of House in America



THIS house was built in the Spring of 1923 as a modernized replica of the home of John Howard Payne to commemorate the one hundredth anniversary of the writing of his immortal song, "Home Sweet Home." It also represents the official demonstration house in the National Capitol for the "Better Homes in America" movement. The house was built in the shadow of the White House and officially opened by President Harding, after which it was presented to the General Federation of Women's Clubs as a permanent demonstration point for home economics. The funds which paid for its construction were provided by the Home Owners Service Institute through contributions of materials and money from the various nationally known manufacturers who are co-operating members of the Institute. Complete plans are available for this attractive home as described on Page 24, where floor plans are shown. The architect for the house as built in Washington is Donn Barber but the interior arrangement has been changed for general use as shown in the floor plans after redesigning by the Home Owners Service Institute.

ABOVE is shown a photograph of the original John Howard Payne house which still exists on an estate in Long Island. It is interesting to note how well the architect has maintained the original lines, making only changes necessitated by modern homeowning requirements.

Photographs of the completed house shown on Page 41.

See Page 24 for Floor Plans as Redesigned by the Home Owners Service Institute

Figure 2.12. The Home Owners Service Institute sponsored this house, "The Most Talked-of House in America," built "in the shadow of the White House" in 1923 to commemorate the one hundredth anniversary of the famous song, "Home Sweet Home." Source: From the pages of the Home Owners Service Institute's *Books of a Thousand Homes*, vol. 1 (New York: Home Owners Service Institute, 1923).

be no fear for a democracy or self-government of for liberty or freedom from homeowners no matter how humble they may be." Furthermore, he pointed out, "there is a wide distinction between homes and mere housing. Those immortal ballads 'Home, Sweet Home,' 'My Old Kentucky Home,' and the 'Little Gray Home in the West' were not written about tenements or apartments." Instead, he called owned homes "the expressions of racial longing which find outlet in the living poetry and songs of our people" (Hoover 1931).

Hoover's conference gained lasting fame through publication of eleven volumes of its findings, which sold tens of thousands of copies. Edited by John M. Gries (who directed Hoover's Division of Building and Housing) and James Ford (a Harvard sociologist who served as executive director of Better Homes in America), each volume compiled committee reports to the conference that detailed ways to make the goal of homeownership more fully realized in the United States. The Committee on Design urged architects to bring their services within reach of "potential home builders and home buyers, irrespective of income." Each city, Interior Secretary Ray Lyman Wilbur told the conference, needed zoning to protect "the one family dwelling . . . from the invasion of the multi-family dwelling or apartment house," noting that "the promotion of homeownership and better homes is the prerogative of all civic leaders and of citizens" (Wilbur 1932, 7, 15).

In assessing the impact of ownership on low-income households, the President's Conference provided little guidance. Gries and Ford noted that the Committee on the Relationship of Income and the Home had been "the last to be appointed and had little time at its disposal for original research." This key committee—whose purpose was central to answering the question of when homeownership becomes affordable—found only "a mass of undigested and imperfectly correlated documents," though it did acknowledge that there were "large numbers of families" who could not yet afford to purchase homes. Constrained by time and funding, the committee did not survey the range and percentage of income devoted to home purchase or rent. Nor did it analyze successful examples of housing for unskilled and semiskilled workers to determine financial lessons. At base, as Gries and Ford observed in their introduction to the committee's report, this aspect of the conference merely called attention to "the imperative need for further study" (Gries and Ford 1932, xii).[3]

Privately, even Hoover acknowledged that "on present wage levels and present building costs" there was "utterly no hope" of working-class families' buying their own homes (cited in Radford 1996, 51). In 1932 the editors of *Fortune* magazine published their classic study *Housing America*, which concluded that fully two-thirds of American households could not afford to purchase even the lowest-priced homes built in U.S. cities during the year 1929, assuming the "proven rule of thumb that no family should attempt to buy a house costing more than twice its annual income" (Editors of *Fortune* 1932, 23). Moreover,

3. The sales figures are reported in Hoover 1952, 258.

once the Great Depression was well under way, many housing professionals made a connection between the availability of jobs and the advisability of homeownership. Writing in 1933, James Ford acknowledged that "homeownership is least desirable, therefore, for skilled workers unless they reside in large communities in which there are many plants in which they might sell their services." Still, he countered by noting that "unskilled labor is not similarly handicapped in large communities," though such workers would be "sorely handicapped in a one industry town or small village" (Ford 1933, 519).

Depression-Era Threats to Homeownership

1931, the year of the President's Conference, set an all-time record of 193,800 non-farm real estate foreclosures, a mark that would be surpassed in each of the next four years, peaking with more than a quarter-million lost properties in 1933. Franklin Roosevelt formed the Home Owners' Loan Corporation (HOLC) in 1933 in an attempt to arrest this hemorrhage. In appealing to Congress to pass the legislation, FDR averred that "the broad interests of the Nation require that special safeguards should be thrown around homeownership as a guarantee of social and economic stability, and that to protect home owners from inequitable, enforced liquidation in a time of general distress is a proper concern of the Government" (Roosevelt 1933, 1618). Nearly one-fifth of the nation's urban homeowners gained some protection through HOLC, which acquired over a million mortgages. By loaning more than $3 billion in its first year of operation, HOLC is credited with helping to save 10 percent of all owner-occupied non-farm residences. Still, there were about a million further non-farm foreclosures during the remainder of the 1930s, matching the 1 million foreclosures that had occurred during the first years of the Great Depression; even HOLC foreclosed on about one-sixth of the mortgages it had accepted (Dean 1945, 46–47, 206; Radford 1996, 179). In Philadelphia—the so-called "City of Homes," where homeownership had prevailed more heavily than in any other large American city—170,000 houses out of a total of 433,140 residential structures went through foreclosure proceedings during the 1930s. Clearly, the security of ownership was not very high (Aronovici 1939, 114).

By 1936 even Better Homes in America was sounding a more cautionary note about the financial risks of homeownership. Its Home Information Service issued Bulletin No. 1 on "Financial Aspects of Homeownership," warning that "a house which a family cannot afford can never be a home." Finally, in the wake of the Great Depression, the Better Homes movement acknowledged that "the prospect of having a home of their own may and does quite often blind a family to many of the principles of sound business which should be considered." Thousands of "well meaning, honest and apparently intelligent people" had become homeless because they "did not give sufficient consideration to the financial aspects of homeownership," and "many others were led by emotional considerations

and their desire for a home of their own to consciously go beyond their means in home buying." While conceding the obvious, the Better Homes proponents stopped short of admitting complicity in all the hype. Instead, the cautionary message merely advised potential homebuyers to consider purchasing more modest homes, and reminded them that houses might actually depreciate in value over time (Home Information Service 1936, 5–11).

The shortsightedness of the Hoover conference in the context of severe economic depression prompted sustained criticism of homeownership for the first time, if only in some progressive periodicals. As depression-induced foreclosures mounted, so too did the frustration with homeownership, though the ideology never seemed in serious danger of being undermined. The most complete expression of this frustration was articulated in a 1932 article by New York architect Arthur Holden titled "Home Sales Racket," which appeared in *The Survey*. Its subtitle, "Who Sets the Pace—the Joneses or the Browns?" anticipated the format of the article, a comparison between the "Conservative Mr. Brown," who would not buy a home until the government helped to make his mortgage secure, and the foolhardy "Mr. Jones," who bought one and now faced foreclosure. The article described Brown's investigation of Hoover's conference and his discovery that "the President took the attitude that it was the business of industry to make it possible for every American family at some time to own its own home." Mr. Brown, however, saw that Mr. Jones had been made a victim of "improper planning, poor construction, and bad financial arrangements," since the federal government loan that had allowed Jones to be "in the swim" had, in reality, only helped him to drown (Holden 1932, 651–52).

Yet even *The Survey*, the most prominent American periodical of the early 1930s to come out consistently against homeownership, was hardly unequivocal in its condemnation. The illustration from "Home Sales Racket," while condemning unwise owners, depicts them as faced by the competing forces of heaven and hell. Even as the sanctified language for describing the home and its grounds is mocked, its appeal is preserved. With heaven unattainable, the owned home still remained the best possible refuge from urban goblins.

Nor did many critics complain when the federal Home Owners Loan Corporation and the Federal Housing Administration (FHA) chose to determine creditworthiness in highly discriminatory ways. As Dolores Hayden describes it, they

> defined the appraised values of properties by making maps in various colors. They "red-lined" or prohibited mortgage loans, in neighborhoods inhabited by people of color. Their highest classifications were reserved for all-white, all-Protestant neighborhoods and they refused loans in racially mixed neighborhoods. Only segregated subdivisions, enforced by deed restrictions, and sometimes separated by walls from neighborhoods where people of color resided, could qualify for FHA support. (Hayden 2004, 124–25)

The "home" magazines of the era remained even more direct in their association of home and sacred Christian space. *Good Housekeeping* sounded like the Bible itself in the language of one 1935 selection: "Blessed indeed are those who own their houses! For of such is the real kingdom of the home" (Moses 1933, 103). In "Gamble of Homeownership," the *Atlantic Monthly* provided some evidence in support of the contentions of *The Survey*, but still concluded that "criticism of homeownership is almost as reprehensible as an attack upon the Deity or a denial of the sincerity of mother's love" (Reeves 1937, 450).

Even so, sobered by the experience of mass foreclosures during the depression, critics of homeownership surfaced with greater frequency, just in time for World War II to put a halt to most housing activity. Carol Aronovici, writing in *Housing the Masses*, observed in 1939 that "much sentimentality has been developed around the idea of homeownership," and that "civic virtue, the sanctity of the family, the spiritual influence of the old homestead, the lasting value of the family council held around the fireside, seem to be the exclusive privilege of the home owner." He complained that renters are not "given a proper place on the roster of the solid citizenry, despite the fact that the majority of our people live in rented houses, while two-thirds of the alleged owners are merely custodians of other people's investments." To Aronovici, "the tenacity of the superstitions which have been built up around the ideals of homeownership passes understanding." In the absence of adequate systems of pensions and unemployment insurance and cooperative ownership schemes, he concluded that "the agencies which conspire to encourage and promote homeownership are a menace to the economic structure of the country. They are leeches sucking the lifeblood of the workers and their families." Still, Aronovici stopped short of critiquing the goal of homeownership for lower-income wage earners; he just wished to liberate it from the "hazards and tragedies which characterize it today." In the meantime, however, Aronovici set out a series of conditions for potential homeowners. Home purchase, he contended, "would be justified" only if the would-be owner had a steady income and would never have trouble meeting payments, if the house itself would physically outlast the term of the mortgage without obsolescence, if there were "no losses in the values of the neighborhood character," if the local housing market would make it easy to resell in the event of a move without sustaining a loss of equity, and if municipal and other tax burdens did not hamper the ability of the owner to pay for home maintenance (Aronovici 1939, 109, 120–21).

Is Homeownership Sound?

Despite such depression-era warnings, it was not really until 1945, with John P. Dean's landmark publication *Homeownership: Is It Sound?*, that an attack was mounted that did not at least allude to the "sanctity" of the home. Dean's book, by contrast, analyzes what he called the "ideology of homeownership," observing

that "more loose talk and fewer facts have appeared in discussions of homeownership than have characterized all the other controversial fields of housing and planning put together." "For *some* families *some* houses represent wise buys," Dean acknowledged, "but a culture and real estate industry that give blanket endorsement to ownership fail to indicate *which* families and *which* houses" (Dean 1945, xiii, 7, 12, 13, 18). Dean dissected the psychological pull of ownership, observing how it resonated with long-standing rural property traditions, "our great stress on privacy in family matters, and our middle-class emphasis on property as an index of status." He cited surveys that attempted to explain the desire for homeownership yet yielded only inchoate "belief in homeownership" or affirmations about "the feeling of ownership." In other words, homeowners viewed homeownership as an end in itself, not simply as a means to achieve other ends. Dean argued that most of the other justifications for homeownership were promulgated by the real estate and building industries rather than by home-seeking families. Such families were eager to believe that an owned home would be a good investment, or an incentive to save, but they were not provided with evidence to judge these things. Instead they faced "continuous propaganda" that enabled any negative experience with homeownership to be dismissed as "unfortunate individual exceptions to a general rule" (Dean 1945, 14–17). Dean identified a threefold push behind the homeownership ideology: cultural tradition, business self-interest, and government encouragement. His "full roster" of business interests included realty interests (111,000 realtors nationwide); builders and subdivision developers; construction groups; architects; mortgage lenders; business groups dealing in building materials, household equipment, and home furnishings; public utilities; household magazines; newspapers; and chambers of commerce.

Although Dean's book remained the most widely discussed critique, former United States Housing Authority administrator Nathan Straus chimed in with further warnings about homeownership for lower-income households. In *Two-Thirds of a Nation*, published in 1952, he argued that house purchase was "rarely to be recommended" for families in the "lower-income half," and was positively "dangerous" if such households made the purchase "at a high price in a period of economic prosperity." Straus acknowledged that "the dream of homeownership is human and commendable," but warned that "those who share it must understand, however, that the average low-income American family cannot fulfill the dream except at grave risk to its own economic security." He suggested that such families should instead satisfy their urge to own by purchasing a "radio-phonograph, a television set, or an automobile," since these "partial substitutes for the emotional satisfaction of homeownership . . . are not anchored to the ground [and] . . . can go along with the family wherever opportunity or destiny may beckon" (Straus 1952, 71–97).

By the 1950s, then, the ideological push for homeownership had been challenged, even as the success of the homeownership movement continued to spread. By the time such hard-headed assessments of the risks and rewards of homeownership had become more common, there were far more safeguards in place

than had existed during the interwar years, when ownership had been so freely and disingenuously touted. In short, the mechanisms for providing middle-class housing assistance finally caught up with the rhetoric. Still, disturbing aspects of Hoover's legacy remained powerful.

Hoover's Legacy

If one takes the various Hoover-era initiatives together—what we might well call the "Better Own Your Own Small Home in America Movement"—the central message is clear: well in advance of the policy initiatives that made widespread homeownership financially plausible, both government and industry had transformed homeownership into an ideological necessity and installed it at the very center of American housing policy, where it has remained enshrined. The homeownership ideology is woven from multiple interconnected strands. First is the strand of property ownership itself, colored green more to represent land than money. This ownership impulse is traced back to the founding of the Republic, through a Revolution viewed as a triumph of individual landownership. Second, homeownership draws strength from a wider identification with rose-tinted American traditions; the owned home could be touted as a metonym for "the American Dream," the codified symbolic evidence of proper socioeconomic advancement, encumbered by assumptions about gender roles and racial separation. Third, the ideological fabric of homeownership features thick bands of red, white, and blue—patriotism mixed with nationalism.

The power of the cultural push for homeownership, personified by Hoover, nonetheless far transcends this single figure. Instead, the ownership campaign traversed several decades, from the early efforts of Riis and Veiller, to the lobbying efforts of the real estate industry, to the policies and institutions of the New Deal. Shored up by a range of institutions—the Federal Home Loan Bank system, the Home Owners' Loan Corporation, the Federal Housing Administration, the Federal National Mortgage Association, and the Veterans Administration home loan program—American housing policy centered its efforts on subsidizing and safeguarding private mortgage lending institutions (Carliner 1998). Despite a Great Depression that challenged the economic feasibility of homeownership, the critique did not fully emerge until after World War II—the very moment when popular tastes and public policies would wholly overwhelm it. Carried out on a tide of mortgage subsidies, the postwar suburban building boom rapidly took homeownership rates to more than 60 percent. Finally, a wave of wealth and policy had brought the propaganda more in line with the possibility.

The great success of United States housing policy during the twentieth century was to move the nation's homeownership rate from little more than one-third of households to more than two-thirds, all the more remarkable given the dramatic increase in the size of the American population. Yet homeownership programs have not yet solved the problem that Edith Elmer Wood identified in

1919: "Housing the Unskilled Wage Worker." Nor has the "one-third of a nation ill-housed" that Franklin Roosevelt worried about in his second inaugural address been significantly impacted by the burgeoning growth of homeownership opportunities. Many households in this last one-third of the population may never become homeowners, and probably lack the necessary finances to try.

Despite the partial successes of various programs aimed specifically at low-income homeownership—ranging from the Section 235 program introduced in 1968, to the HOPE initiatives of the 1980s and 1990s, to more recent efforts to encourage first-time homebuyers—there is a disturbing legacy that remains from the earliest ideologically grounded efforts to promote homeownership. Clearly, homeownership truly is much more than a financial calculation. Yet as citizens and as housing policymakers we still suffer from a lingering fantasy: a belief that the only thing thwarting the United States from becoming a nation of 100 percent homeowners inheres in the "character" flaws and lack of "responsibility" of our lowest-income households. We have lost little of the Hoover-era renter-bashing mentality, especially virulent with regard to tenants of public housing (Vale 1996, 1998). Policy advocates too often still cling to the belief that mere "thrift" will permit a socially and financially successful ascent to homeownership. After decades of imbibed propaganda, it is all too easy to accept the equation between homeowner and good citizen at face value. To state this is not to cast doubt on the many good qualities that have been ascribed to homeowners; there are certainly ample kernels of truth in the paeans of Hoover and NAREB. The problem is that, in rewarding homeowners, we continue to stigmatize those seen as falling short of this moral ideal.

The challenge for both housing policymakers and housing consumers is still to sort out the genuine benefits of homeownership from its financial pitfalls. John Dean's caution still resonates: "For *some* families *some* houses represent wise buys, but a culture and real estate industry that give blanket endorsement to ownership fail to indicate *which* families and *which* houses." As other chapters in this book indicate, there are many good reasons to celebrate the nation's dramatic growth in homeownership since 1945; owner-occupied neighborhoods frequently do display better conditions than their rented counterparts, and homeowners often demonstrate higher levels of civic engagement than renters.

At the same time, however, close analysis of the history of homeownership advocacy reveals a persistent but dangerous temptation to view the transition from renter to homeowner as an act of moral deliverance and financial salvation. Especially for low-income buyers, home purchase is not always a sound path to wealth creation or neighborhood quality. The social and psychological gains of ownership are still tempered by the incoming tides of mortgage payments and home repair bills. Such risks cannot simply be Hoovered under the rug. Only by carefully dissecting the hope from the hype in the ideological underpinnings of the homeownership push can we ever complete the progress toward housing the last "one-third of a nation."

3

Homeownership for Low-Income Households

A Comparison of the Section 235, Nehemiah, and Habitat for Humanity Programs

RACHEL G. BRATT

Promoted by a variety of public policies, homeownership has long been the preferred tenure choice for housing in the United States. Federal efforts to extend homeownership to low-income urban households have had a much more limited history, however, with the major such initiative emerging in 1968 with the enactment of the Section 235 program. Despite high hopes, Section 235 was short-lived and tarnished by a range of problems. Since there is enduring interest in the potential of "homeownership for the poor," the analysis in this chapter questions what can be learned from past initiatives. After presenting a historical background on this issue, this discussion:

- Explores the experience of the Section 235 program in extending homeownership to low-income households. Using a three-part framework that focuses on factors related to consumers, production, and finance, it examines the problems that surfaced in the 235 program.
- Briefly reviews the Nehemiah and Habitat for Humanity programs and examines the ways in which they have improved on the Section 235 program.
- Presents observations about the conditions that appear conducive to a successful contemporary low-income urban homeownership program. These are based on the prior analysis, as well as on the experiences of homeownership programs sponsored by the Neighborhood Reinvestment Corporation (now doing business as NeighborWorks America) and the Enterprise Foundation (now known as Enterprise Community Partners, Inc.).

Historical Background

By the 1960s the idea of promoting homeownership through federal policy was hardly new. One hundred years earlier, the Homestead Act provided free land for settlers who built homes and farmed the land. As Lawrence Vale describes in his chapter of this volume, the Department of Commerce was a strong supporter in the 1920s of the "Better Homes for America" movement, an early public-private partnership that encouraged households to save for homeownership and spread information about the homebuying process (Dean 1945, 42). And in 1931 Herbert Hoover convened his President's Conference on Home Building and Home Ownership, at which he noted that "every one of you here is impelled by the high ideal and aspiration that each family may pass their days in the home which they own" (quoted in Dean 1945, 44).

As the Great Depression took hold, and the activism of a new president, Franklin D. Roosevelt, replaced the rhetoric of the Hoover administration, a variety of federal institutions and programs were created to help homeowners in default, to promote more affordable home loans through federal mortgage insurance, and to support the mortgage finance needs of would-be homebuyers. And while the Housing Act of 1949 is best remembered for expressing the national housing goal—"A decent home and a suitable living environment for every American family"—and creating the urban redevelopment program, the legislation also authorized the nation's first major low-income homeownership program (Section 502), targeted exclusively at rural areas.

Homeownership programs have always had a variety of objectives beyond the obvious one of providing ownership of housing. For example, a key goal of the Homestead Act was to expand the territories settled by European Americans, as opposed to Native Americans. And the depression-era initiatives were aimed at restabilizing and stimulating the economy through supports to financial institutions and incentives and protections for homebuilders (Bratt 1976).

A new wave of congressional enthusiasm for homeownership surfaced in the 1960s, with the rediscovery of poverty, racial unrest, and inner-city problems. After several years of debate, Congress enacted the first major federal homeownership program for the non-rural poor.[1] Known as the Section 235 program, it was aimed at expanding the numbers of people who could own their own homes, particularly inner-city residents, members of racial minority groups, and those with low incomes. Between 1969 and 1979 it enabled some 500,000 households

1. Two small-scale urban-focused federal programs preceded the Section 235 program. In 1965 a program was created to enable public housing tenants to purchase their units, and in 1966 the Section 221(h) program provided low-income households the opportunity to buy previously substandard houses from nonprofit sponsors after they had been purchased and rehabilitated by these entities (U.S. Commission on Civil Rights 1971, 4).

to achieve homeownership (Hays 1995, 117; Martinez 2000). But the program was short-lived.[2] Major scandals in its operations surfaced less than five years after its creation, and the Nixon administration froze its funding in early 1973 as part of a moratorium on virtually all federal housing subsidy programs. A smaller 235 program reappeared in 1976, only to die in 1987 (Carliner 1998, 313–14). During this time, congressional interest in a major federal homeownership program for the non-rural poor evaporated, with bad memories of the 235 program tainting the possibility of any such initiative.

Although homeownership for low-income people was not a top concern for most policymakers during the mid- to late 1970s, homeownership rates for the overall population moved upward between 1960 and 1980 (Joint Center for Housing Studies 1990, 1991). HUD (Department of Housing and Urban Development) secretary Jack Kemp revived interest in low-income homeownership in 1990. Introducing new legislation to create the HOPE program (Homeownership and Opportunity for People Everywhere), he stated that a key goal was "expanding homeownership and affordable housing opportunities for low- and moderate-income families and young families just starting out" (Kemp 1990, 40). As Lawrence Vale explains in this volume, various components of that program provided homeownership opportunities to families living in public housing and other project-based subsidized housing.

The rhetoric and reality of homeownership flourished under the Clinton administration, and the homeownership rate reached 67.7 percent of U.S. households (HUD 2000, 52). In this context, the Joint Center for Housing Studies at Harvard University launched a low-income homeownership symposium in November 2000 to provide critical and sophisticated analyses of the "unexamined goal" (Retsinas and Belsky 2002a), particularly its role in contributing to asset accumulation. Reflecting on the 1990s, the Millennial Housing Commission (2002, 21) summarized the nation's overall accomplishments in promoting homeownership by noting that "the number of lower-income home owners increased by about 2.5 million, African-American owners by about 1.2 million, and Hispanic owners by about 1.2 million" from 1994 to 2000.

Homeownership retained its popularity in the administration of George W. Bush. His first HUD secretary, Mel Martinez, articulated his strong positive feelings about homeownership by noting "the pride my dad and mom had when they bought their first home in America with the help of FHA. Owning your own home is the American Dream," he continued, "and I intend to fight for

2. In contrast to the 235 program, Section 502 is still in operation. A comparison of the Section 502 and 235 programs was beyond the scope of this inquiry. Additional research could provide insights into why the rural homeownership program has enjoyed longevity while the urban program encountered so many difficulties and was terminated.

those who do not yet own a home, so they can live the American Dream and experience the transformation that can happen in a life though homeownership" (Martinez 2001). Despite this enthusiasm and the overall gains in homeownership rates, only a relatively small number of low-income homeowner households receive direct federal housing assistance,[3] and there are large disparities between the number of low-income and higher-income homeowners and white and minority homeowners.[4]

The Bush administration and HUD continued to tout homeownership. In June 2002 the president set a new goal: to increase minority homeownership by 5.5 million households by the end of the decade, thereby helping to close the gap between white and minority homeownership (HUD 2002c). Five months later, HUD released two reports to support this agenda (HUD 2002a; 2002b),[5] but neither recommended a new deep subsidy to promote low-income homeownership.

3. Only 11 percent of the 5.4 million units that receive direct federal housing assistance are owner-occupied, with the Section 502 Rural Homeownership Program comprising the great majority of these households (547,622). The now defunct Section 235 program still assists 31,176 households (Millennial Housing Commission 2002, 95, 111–12). Another group of low-income homeowner households receive federal assistance indirectly—through the income tax system's provision allowing owners to deduct mortgage interest and property tax payments in calculating their tax liability. About 3 million homeowners earning $30,000 or less receive indirect federal assistance through the mortgage interest deduction. This benefit, however, is predominantly enjoyed by those with the highest incomes. In terms of dollar volume, households with incomes of less than $30,000 receive slightly over $1 billion in tax relief, compared with $65 billion for those earning more than $30,000. By far the largest benefit of the mortgage interest deduction goes to those earning over $100,000. Among the 9 million households itemizing their deductions in this income bracket, their mortgage interest deduction totaled over $36 billion, more than half the total amount of this deduction (Joint Committee on Taxation 2002, 33).

4. Of those earning less than 80 percent of the median income, about 42 percent are homeowners; among those earning more than 80 percent of median income, the homeownership rate is an impressive 78 percent (calculated from National Low Income Housing Coalition 2001). Although in 2001 minorities accounted for about 32 percent of recent first-time homebuyers, an increase from about 19 percent since 1973, there is still a huge gap between white and minority homeownership rates. Three-quarters of all white households own their own homes, compared with 48.4 percent of black households and 47.4 percent of Hispanic households (Joint Center for Housing Studies 2004, 35).

5. HUD (2002b) outlined the economic benefits that would be realized if the minority homeownership gap were reduced. HUD (2002c) recommended modest increases or new funding for homeownership education, increasing the supply of affordable homes, providing assistance with down payment and closing costs, and offering financing options, thereby making homeownership more accessible to a wider range of households. Specifically, concerning down payment assistance, Bush was a major supporter of the American Dream Homeownership Act, enacted in December 2003, which provides over $160 million to assist first-time homebuyers to cover down payment and closing costs. In fiscal 2003, the HOME program (a block grant program for housing) appropriation included an extra $75 million for down payment assistance. More generally, both the HOME and Housing Choice Vouchers programs allow funds to be used for homeownership (also see note 16).

After spending several years studying a range of issues including homeownership, the Millennial Housing Commission recommended only a new homeownership tax credit aimed at first-time buyers with incomes less than 80 percent of the median. The commission justified this approach with the lackluster observation that "the advantage of the homeownership tax credit over direct subsidy programs is that it devolves authority to states and relies on private-sector partners to deliver allocated resources" (Millennial Housing Commission 2002, 31). While the country does not seem poised to provide significant resources to support low-income homeownership, the interest in this policy remains strong. What have we learned from our years of experience with programs to promote homeownership for low-income households?

The Section 235 Program

The Section 235 program was created as part of the sweeping Housing and Urban Development Act of 1968. Like the older Section 502 program, which had been limited to rural areas, Section 235 provided subsidies to reduce the interest on privately originated home mortgages, bringing them as low as 1 percent. This below-market interest rate enabled hundreds of thousands of households to qualify for homeownership. For example, for a mortgage of $50,000 at an interest rate of 7 percent with a term of thirty years, the monthly payments would be $333. At a 1 percent rate, the payments would be about half that amount.

Fueled in part by the unrest in the inner cities and the sense that homeownership was a cornerstone of urban revitalization, the idea of promoting a new program aimed at lower-income households had bipartisan appeal. In addition, Section 235 had the support of the private homebuilding industry, including developers, mortgage lenders, and real estate agents, and represented the relatively new approach of producing housing for low-income households through public-private partnerships (Hays 1995). Shortly after the program became operational, serious problems surfaced, many of which related to the undisciplined and unmonitored roles of the private sector. As of 1979, over ninety thousand units (about 18 percent of the total) had been foreclosed (Hays 1995, 117).

The Section 235 program was administered by the U.S. Department of Housing and Urban Development, a cabinet-level department that had been created in 1965. The Federal Housing Administration (FHA), which was created in 1934 to insure mortgages originated by private lenders, was folded into the new agency. The experiences of the Section 235 program and the other two programs examined in this chapter are discussed under three broad categories: consumer issues, production, and finance.

Consumer Issues

Participants in the 235 program were first-time buyers with low and moderate incomes. Many were people of color who were entering a traditionally

discriminatory homeownership market.[6] A report by the House Committee on Government Operations (1972, 16) noted the dangers facing this new group of homebuyers: "Often . . . a very knowledgeable, if not unscrupulous, speculator deals with an uninitiated and unknowledgeable buyer. The consequences are tragic." What role did HUD play in assisting this new population of less knowledgeable buyers?

Management of risk Congress fully understood the risks involved in homeownership. Even before the entry of lower-income homebuyers into the FHA's mortgage insurance programs, the Housing Act of 1954 mandated that "the first responsibility . . . of any agency administering . . . housing program(s), is to protect and preserve the public interest in general and the rights of homeowners in particular" and identified the agency's "primary responsibility" as the "duty to act in the interest of the individual home purchaser and in so doing protect his interest to the extent feasible."[7]

Congress designed the 235 program to minimize the cash investment needed by its low-income and low-asset clients, and HUD was to absorb the risk by insuring its clients' mortgages. As a public agency and the risk taker of record, HUD should have adopted a strong stand to protect its own interests as well as those of consumers, but it did not do so. Ultimately, poor and ill-prepared first-time homebuyers bore much of the risk themselves. While the financial exposure may have been minimal, the emotional toll of losing one's home is substantial.

Counseling Congressional and administrative spokesmen had emphasized the importance of counseling for homebuyers while first considering the Housing and Urban Development Act of 1968. In fact, similar legislation to Section 235, introduced by Republican senator Charles Percy in 1967, was opposed by the Johnson administration allegedly because it failed to recommend funding for counseling (Subcommittee on Housing and Urban Affairs 1967, 1448–49). One year later, HUD secretary Robert Weaver pointed to a strengthened counseling provision when he was asked how the Johnson administration's proposed homeownership program had improved upon the 1967 legislation (Subcommittee on Housing and Urban Affairs 1968, 35).[8]

6. In 1970, 65 percent of white families owned their own homes compared to some 42 percent of nonwhite families (cited in U.S. Commission on Civil Rights 1971, 3).

7. *National Housing Act of 1954*, Public Law 560, *U.S. Statutes at Large* 68 (1954): 590, 593.

8. Counseling may have been used as a "political football." The lack of counseling in the 1967 legislative proposal provided a justification for the Johnson administration to oppose the Republican-sponsored homeownership-for-the-poor program. The Democratic HUD secretary Robert Weaver argued one year later that counseling services were an essential part of the 1968 legislation, although funding for counseling was not provided. By then, however, the low-income

Specifically, Section 237 of the 1968 act authorized funding for counseling services both to mortgagors under the Section 235 program and for others who could meet the standards of one of the FHA insurance programs but who had faulty credit histories. Despite several strong statements in the 1968 legislative record about the importance of counseling services (see House Committee on Banking and Currency 1968, 10–11), HUD did not request and Congress did not provide an appropriation for counseling in the budget for fiscal year 1969. This proved to set an unfortunate precedent: Congress rejected HUD requests for funding for counseling for fiscal years 1970 and 1971. Although HUD secretary George Romney noted that "funding is essential to a successful counseling program" and that this could "not be achieved through voluntary effort alone" (Senate Committee on Appropriations 1971, 889), the Appropriations Committee rejected any line item for funding in 1971. By the time Congress considered the budget for fiscal year 1972, the growing awareness of problems in the homeownership programs led to an appropriation of $3.25 million to fund counseling services. Most of these funds were used to counsel households in mortgage default, however, not for pre-purchase counseling efforts.

HUD largely limited its counseling role to certifying private nonprofit or public counseling agencies. By the end of 1970 there were only sixty-three HUD-certified counseling agencies; by 1972 this number had grown to about two hundred, plus about one hundred noncertified organizations. Most of these groups were relatively inexperienced and offered only a partial range of services, but one study concluded that counseled families still encountered less severe housing problems, as well as lower housing-related expenses after assuming ownership, in comparison to uncounseled purchasers (Organization for Social and Technical Innovation 1974).

By the time these findings were released, HUD had already acknowledged the importance of pre- and post-purchase counseling for marginal mortgagors (HUD 1971, 23). Nevertheless, in January 1974 HUD launched a new, inadequate homeownership counseling initiative. The guidelines of the Homeownership Information, Advice and Assistance Program (HIAPP) ran counter to existing knowledge about what constituted effective counseling (Bratt 1976, 269–74).

Since the 1970s, housing counseling has become something of a growth industry (McCarthy and Quercia 2000). With counseling authorized in the Housing and Community Development Act of 1974, funding grew from $3 million to $12 million between 1977 and 1993 (Quercia and Wachter 1996, 179), reaching $25 million in 2002 (Collins 2002, 33). While there are still many unanswered questions about counseling, "its popularity may continue to grow because of its

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homeownership program was clearly viewed as a Johnson administration initiative, and the essential issue was to get it passed; counseling could easily be sacrificed (Bratt 1976).

ability to reach and extend homeownership opportunities to traditionally underserved populations" (McCarthy and Quercia 2000, 29; see also Mallach n.d. [ca. 2001] and Housing Assistance Council 2003). Further, the Millennial Housing Commission (2002) recommended an expansion of housing counseling based in part on recent research by Freddie Mac showing that pre-purchase counseling and education had positive impacts on loan performance (Hirad and Zorn 2001).

Asset accumulation In introducing the Section 235 legislation before Congress in 1968, HUD secretary Robert C. Weaver noted that homeownership provides "a sense of place and purpose [and] creates a pride of possession, engenders responsibility and stability" (Subcommittee on Housing and Urban Affairs 1968, 7). Secretary Weaver did not mention, however, that homeownership allows a family to accumulate assets, a key stimulus behind current interest in low-income homeownership programs. Not surprisingly, therefore, drafters of the 235 program did not include stipulations about how much accrued equity could be retained by these homeowners upon resale of the house.

Production

The way in which houses under the 235 program were built, rehabilitated, and sold proved to be highly problematic. In particular, key actors in the Section 235 homeownership system, including FHA inspectors, real estate brokers, and banks, often worked at cross-purposes to the interests of homebuyers. In addition, many 235 program purchasers bought homes in declining neighborhoods, which did not allow them to recoup their investments, let alone accumulate assets.

Building quality Inferior construction was perhaps the most damaging aspect of the 235 program, and the congressional and HUD investigations into the quality of the units insured contributed to the program's bad public image. A HUD report (1971, 3) "found cases of families who have become the disappointed owners of houses which will not even come close to lasting the life of the mortgage," with many houses having significant defects. In a congressional inquiry focused on Detroit, analysts concluded, "Despite the fact that HUD knew or should have known that many homes in the inner and middle city in Detroit were substandard, the Department proceeded to write mortgage insurance on large numbers of structurally unsound houses" (House Committee on Government Operations 1972, 4). Numerous newspaper stories and congressional committees chronicled the serious defects of homes insured by the FHA during the early 1970s (see, for example, HUD 1971; House Committee on Banking and Currency 1970, 1971).

Roles of Key Actors: FHA Inspectors, Real Estate Brokers, and Banks. Building quality would never have mushroomed into such a large problem if key actors had done

their jobs more responsibly and if HUD's own guidelines and oversight had been more clearly protective of homebuyer interests.

One of the major issues that surfaced during hearings on the 235 program was HUD's ambiguous role in guaranteeing the quality of the insured properties. As early as the 1950s, observers had noted that purchasers of FHA-insured homes mistakenly believed that the government had vouched for the quality of those homes (Dollinger 1952, 163). Nearly twenty years later, auditors of the 235 program noted the same ambiguity and reported that the mortgagor had no way of learning "the extent of responsibility, if any, which HUD assumes in connection with the condition of a house involved in an insured mortgage transaction" (HUD 1971, 55). Not illogically, and without information to the contrary, mortgagors apparently assumed that their houses were adequate since the government had inspected them and insured their mortgages. Moreover, the audit team reported, "many mortgagors told us that a seller, broker, or salesman had represented the house to be free of significant defects," only to learn later of "defects that should have been corrected before the sale was closed" (HUD 1971, 55).

Beyond the confusion about the meaning of an FHA inspection, there were outright abuses and fraudulent practices on the part of incompetent and sometimes corrupt HUD and FHA officials (see House Committee on Government Operations 1972; Subcommittee of the Committee on Government Operations 1971, 1972; Boyer 1973; Downie 1974). One congressional report, for example, cited numerous instances of appraisals that were "inflated by several thousands of dollars above the true value of the home" (House Committee on Banking and Currency 1970, 1). It was not uncommon to find that a home with FHA insurance and serious physical deficiencies had sold for a fraction of the resale price only a month or two earlier (HUD 1971, 1973). Some FHA officials worked in tandem with unscrupulous real estate agents, who received commissions on houses bought at low prices and second commissions when the houses were soon resold at much higher prices, often after very modest or cosmetic repairs. Sometimes the real estate agent purchased the home and resold it to a buyer under the 235 program, directly reaping the profits from the inflated resale (HUD 1971). Following these disclosures, by April 1975, sixty-five HUD employees and over one thousand other individuals had been indicted for various abuses involving the homeownership program (House Committee on Government Operations 1972, 39).

Mortgage companies were also central players in the scandals surrounding the 235 program. As largely unregulated institutions, mortgage companies were (and still are) the major mortgage loan originators under the FHA's mortgage insurance programs. In implementing the 235 program, these financial institutions took no responsibility for the quality of the homes on which loans were being made because they were insured by the FHA (Bratt 1976). Even more troubling, mortgage companies could reap significant profits by originating weak loans that

could be foreclosed quickly. In short, the FHA's programs created incentives for foreclosure (Senate Committee on the Judiciary 1972).

A final set of actors who have played a significant role in more recent homeownership programs—nonprofit organizations—were not a factor in the production of Section 235 units. Community development corporations were barely on the map, and other nonprofit housing groups were typically involved only through the provision of counseling services, discussed earlier.

Neighborhood factors Congress enacted Section 235 during a period of concern about the needs of inner-city areas, and the program became an explicit hedge against racial unrest. Urbanist George Sternlieb testified before Congress, "There is no question that the chance of riots in Newark or for that matter any other major core area would have been substantially lower with more Negro homeownership"(Sternlieb 1967, 1607). Senator Charles Percy agreed, asking the following year, "If we do not begin to do what the [Civil Disorder] Commission recommends, what do you think will happen in the cities this summer?" (Percy 1968, 41).

During the same period redlining had become a well-documented issue, but the FHA abandoned all concern for physical standards and marketability as it insured mortgages in previously bypassed areas (President's Committee on Urban Housing 1968; National Commission on Urban Problems 1968). This lack of caution wreaked havoc on thousands of purchasers.

Finance

While the 235 program strove to approve as many households as possible, the program neglected full scrutiny of borrowers' credit histories and provided extremely favorable loan terms. Lax financial safeguards were partially the cause of thousands of new homeowners eventually losing their homes. On top of this, HUD failed to enforce its rules stipulating how mortgagees should provide relief to families facing default and foreclosure.

Loan terms and creditworthiness of buyers Financial terms for the 235 program were extremely favorable. Down payments were only $200, and interest rates could be as low as 1 percent. While these requirements gave low-income households significant opportunities to become homeowners with very little money, there were few or negligible state or federal resources to assist homeowners who lost income, had to make costly repairs, or needed help with routine maintenance (House Committee on Government Operations 1972, 20).

From a financial perspective, the 235 program significantly reduced the normal risks of ownership that most households encounter, but the lack of borrower safeguards created some serious problems. While property appraisals and

inspections were under HUD's direct control and supervision, the department delegated to mortgagees the responsibility for collecting and supplying credit information about borrowers. A 1973 review of eight HUD area offices found that several mortgagees were noncompliant with HUD's guidelines and reported numerous cases of inaccurate credit reporting. This inadequate oversight substantially increased the agency's risk and also poorly served the interests of the low-income homebuyers (Comptroller General of the U.S. 1973, 19–21; HUD 1973, 26).

Foreclosure While congressional hearings documented many of the defects of the 235 program, HUD's unwillingness to require mortgagees to extend forbearance to defaulting homeowners was not well publicized. This shortcoming was significant; greater attention to the problem and more rigid enforcement of regulations might have helped large numbers of homeowners to keep their homes.

HUD's guidelines explicitly described foreclosure as a last resort (HUD 1974, 44, 55), but mortgagees consistently failed to follow these guidelines, and HUD failed to intervene on behalf of the low-income homeowners.[9] The Federal National Mortgage Association (now known as Fannie Mae) found that only 3.3 percent of 26,575 delinquent but eligible FHA loans were receiving forbearance (Federal National Mortgage Association 1973). Reports from HUD personnel confirmed that the agency rarely followed its own guidelines and seldom gave relief to defaulting mortgagors (Bratt 1976).

Problems with HUD's foreclosure prevention procedures predictably led to litigation. The most frequently cited decision, *Brown v. Lynn*, blamed HUD for failing to protect defaulting homeowners. Despite this ruling, allegations continued that HUD neglected to follow judicial mandates consistently.[10] Reflecting back on this era, a HUD report from the mid-1990s noted, "Until 1976 HUD maintained a hands-off approach to defaults and foreclosures, effectively leaving policy decisions to each individual mortgagee" (1996b, 71).

In 1992 Congress finally required HUD to determine how to avoid foreclosures. The agency then changed its operation significantly and in 1996 claimed to be "moving forward in a proactive way to develop a full menu of options for assisting borrowers with financial difficulties" (HUD 1996b, 91). More specifically, HUD initiated a "program whereby it takes assignment of qualifying loans

9. *Housing Act of 1964*, Public Law 88–560, approved September 2, 1964, *U.S. Statutes at Large* 769, sec. 104(a); *National Housing Act*, sec. 204(a).

10. Subsequent court cases were known as *Ferrell v. Hills, Ferrell v. Harris, Ferrell v. Landrieu,* and *Ferrell v. Pierce.* The changes in defendants were due to the changes in the HUD secretary (HUD 1996b, 74).

in default and provides direct servicing and forbearances" (HUD 1996b, 71). Despite these improvements, the HUD report outlined a number of steps that the agency could still take to assist homeowners avoid foreclosure.[11]

The effort to promote homeownership under the 235 program was saddled with numerous problems. Although a large-scale federal homeownership program for low-income families has not yet been revived, there have been a number of important smaller-scale initiatives.

Locally Initiated Low-Income Homeownership Programs

Like public officials, nonprofit groups often express strong interests in homeownership. In the 1970s and 1980s church-based organizations created Habitat for Humanity and the Nehemiah Plan Homes program. Both became major homeownership initiatives that ultimately spawned numerous local programs and enabled thousands of low-income households to become homeowners. To what extent have these programs demonstrated the ability of low-income households to achieve homeownership and build on what was learned from the Section 235 program?

Hundreds of other homeownership programs also operate across the United States, often assisted by the Neighborhood Reinvestment Corporation and/or the Enterprise Foundation (see, for example, HUD 1996a; Werwath 1997; Neighbor Works Journal 1997; DiPetta et al. 2001).[12] In 1993 and 2002 the Neighborhood Reinvestment Corporation launched two Campaigns for Homeownership, which stimulated local NeighborWorks organizations or affiliates to implement a model homeownership assistance strategy called "Full-Cycle Lending" (Rohe, Quercia, and Van Zandt 2002). The Enterprise Foundation's "Welcome Home" program was initiated in 1997, and, as in the Neighborhood Reinvestment Corporation's program, nonprofit affiliates across the country participate in training and technical assistance programs and become eligible for various types of funding for local homeownership initiatives (Nichols, Rettaliata, and Vergara 1997).

There is considerable overlap among the various local homeownership programs. The Enterprise Foundation, for example, provides support to a number of

11. In further recognition of the importance of providing creative mechanisms for assisting homeowners in default, many lenders have reportedly been extending forbearance to such mortgagors: "Adopting an approach that economists say has led to one of the most important changes in the housing market in recent years, mortgage lenders significantly reduced the rate at which they repossessed homes. In place of foreclosure, many altered the schedule of loan payments in the hope that the drop in borrowers' income would turn out to be relatively brief" (Leonhardt 2002, A1).

12. The Neighborhood Reinvestment Corporation was created by Congress in 1975 to promote "reinvestment in older neighborhoods by local financial institutions in cooperation

Habitat for Humanity programs as well as NeighborWorks affiliates. Information about specific homeownership initiatives sponsored by the Neighborhood Reinvestment Corporation, the Enterprise Foundation, and independent programs is not included in the following discussion because these programs are extremely diverse and disaggregated, and thus more difficult to study than the Habitat for Humanity and Nehemiah programs. General findings about these programs are, however, presented in the final section of this chapter, which focuses on the ways in which the lessons from the 235 program have been incorporated into the Habitat and Nehemiah programs.

Habitat for Humanity

Habitat for Humanity International is a nonprofit organization committed to eliminating poverty, housing problems, and homelessness from the world. It is a nonprofit, ecumenical Christian housing ministry whose goal is to make "decent shelter a matter of conscience and action" (Habitat for Humanity 2006a). The organization had its roots in a project launched in 1968 by Millard Fuller, a young, highly successful entrepreneur and devout Christian, and Clarence Jordan, a Georgia farmer who was also a biblical scholar. The two developed the idea of "'partnership housing'—where those in need of adequate shelter would work side by side with volunteers to build simple, decent houses" (Habitat for Humanity 2003c). Since then, Habitat has assisted more than 44,000 families in the United States to become homeowners; about three times that number have benefited from similar programs abroad (Habitat for Humanity 2002; 2005). Across the United States there are more than 2,100 local affiliates, operating in all fifty states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands (Habitat for Humanity 2006a).

The Habitat for Humanity model depends on donations of land, labor, money, and materials. The prototype program began in 1968 at Koinonia Farm, a small interracial farming community near Americus, Georgia. With donated capital from across the country, homes were built and sold to families at cost

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with community, residents, and local governments" (NeighborWorks 2003, 3). The NeighborWorks network, which was created by the Neighborhood Reinvestment Corporation, consists of about 245 local nonprofit organizations whose goal is to create affordable housing and to promote community revitalization (NeighborWorks 2006, 7–8). In 2005, $168.3 million in NeighborWorks revolving loan and capital investments attracted more than $2.8 billion in other direct investments in neighborhoods served by affiliate organizations (NeighborWorks 2005). The Enterprise Foundation was created in 1982 with the assistance of real estate developer James Rouse. Since then, the organization has raised over $7 billion in private funds, which in turn have been invested in some 2,400 nonprofits. More than 190,000 homes affordable to low-income families have been built or rehabilitated, and more than 38,000 "hard to employ" people have located entry-level jobs (Enterprise Foundation 2006).

(Habitat for Humanity 2006b). Eight years later, Habitat for Humanity International (HFHI) was founded "to provide low-income people with simple, decent, and affordable shelter—at the same time enhancing the community by bringing partner families and local volunteers together in the homebuilding process" (Applied Real Estate Analysis 1998, II-1).

Nehemiah Plan Homes

The Nehemiah program developed in two poor, predominantly African American neighborhoods in Brooklyn and the South Bronx. Confronted by deterioration in the areas surrounding their churches, a group of ministers formed the East Brooklyn Churches organization in early 1979 (renamed East Brooklyn Congregations in 1988). Relying on an Alinksy-style organizing approach, and with help from the Industrial Areas Foundation, the group quickly focused on housing. Johnny Ray Youngblood, one of the group's leaders, spurred the idea of homeownership for low-income people by invoking the biblical prophet Nehemiah's demand in the fifth century B.C.E. that public officials rebuild Jerusalem: "You know full well the tragedy of our city. It lies in ruins and its gates are burned. Let us rebuild the wall of Jerusalem and rid ourselves of disgrace" (Nehemiah 2:17).

The ministers teamed up with a well-established New York City builder, I. D. Robbins, who became intrigued and challenged by the task of promoting homeownership opportunities for very low income households. To reduce costs, the group planned to build a large number of attached townhouses on continuous tracts of land. They hoped that this "critical mass" would help to reduce the prevalence of crime and drugs and other problems associated with severely deteriorated buildings and land. New York City subsidized the program with donated land, a ten-year tax deferral, and $10 million dollars in loans (Donovan 1994, 8). Construction depended heavily on donations of labor, cash, and materials. A similar initiative was launched in the South Bronx that built on the early experiences in Brooklyn.

The original New York program constructed more than three thousand houses. As of 2002 sales prices ranged from $105,000 to $115,000, but low-interest "evaporating" loans by the city to the nonprofit developer further reduced costs by $15,000 to $20,000 per unit (New York City Independent Budget Office 2002). Families of three or more persons needed an income between $25,000 and $87,900 to be eligible, with most household incomes averaging $35,000 to $40,000 (City of New York Department of Housing Preservation and Development 2003; New York City Independent Budget Office 2002).

Congress responded to the well-publicized success of the Nehemiah and Habitat programs. Between 1987 and 1991 it authorized a new national initiative, the Nehemiah Housing Opportunity Grants Program, which provided over $60 million to fifty-four grantees, over three rounds of funding, to develop some

4,100 units.[13] Nonprofit organizations received funds to offer interest-free second mortgage loans of up to $15,000 to purchasers of homes built under local Nehemiah projects.

There are now scores of Nehemiah programs operating across the country, funded in part through the Community Development Block Grant program.[14] These local initiatives incorporate many of the key characteristics of the original model.

Also responding to the popularity of the Habitat program, Congress created the Self-Help Homeownership Opportunity Program in 1996. Funded at $25 million in fiscal year 2005, this program provides funds for land acquisition and infrastructure development for self-help housing. Funds under this program are placed within the Community Development Block Grant account and provide about $15,000 in subsidy for every house constructed.

Analysis of Habitat and Nehemiah

Information on the Habitat and Nehemiah programs is skimpy, and not all the relevant questions can be fully answered. Both programs are highly decentralized, with numerous local versions operating all across the country. Piecing information together creates a clear image, however: these programs are quite different from Section 235.

Consumer Issues

Who assumes the risk of homeownership? What roles do buyers play in the programs? In both the Habitat and Nehemiah programs the families assume some or all of the risk of homeownership. Families in the Habitat program provide significant "sweat equity" by working on their own homes and those of others.[15] Habitat for Humanity International recommends that prospective buyers contribute about five hundred hours, although the actual number may range from two hun-

13. *Housing and Community Development Act of 1987*, Title VI Public Law 100–242. Not all the units were actually developed. For example, in the first round, three projects dropped out of the program and two other projects had to lower the number of units planned for the sites, reducing construction totals from 1,305 to about 1,170 units (Phipps, Heintz, and Franke 1994, 2–13).

14. The Community Development Block Grant program was created by the Housing and Community Development Act of 1974. Congress appropriates funds for a wide range of activities, including housing, which are distributed by HUD to state and local governments, which in turn allocate the funds according to local priorities. Also see note 16.

15. In the 1960s a number of local programs experimented with sweat equity and other types of self-help initiatives (see, for example, Nesbitt 1967; Organization for Social and Technical Innovation 1969).

dred to five hundred (Applied Real Estate Analysis 1998, III-17). The "sweat equity requirement not only reduces the costs of the housing construction but also provides homeowners with valuable skills needed for ongoing repairs and maintenance, helps the homeowner to understand how the house is constructed, engenders pride of workmanship, and—most important—enables the owner to be a true partner in the housing delivery process" (Applied Real Estate Analysis 1998, III-12). Habitat purchasers must also pay some portion of down payment and closing costs, although these amounts can vary. In the varied experiences of nineteen affiliates, down payments ranged from $250 to $800, while closing costs were typically between $300 and $1,000 (Applied Real Estate Analysis 1998, III-9). Some Habitat programs attempt to safeguard homeowners' interests by requiring that they set aside funds for insurance, property tax payments, and maintenance (Applied Real Estate Analysis 1998, III-10), thereby assisting them to budget for large expenditures.

Researchers evaluating the first round of the Nehemiah program noted that the first mortgage holder, usually the state housing finance agency, bore the greatest risk, followed by HUD, in the form of the second mortgage, and then the homeowner (Phipps, Heintz, and Franke 1994, 3:25). Data from the first group of homes to be sold showed that homeowners' cash contributions at closing ranged from zero to $5,800, with most sites requiring between $2,200 and $5,800 (Phipps, Heintz, and Franke 1994, 4:6).

Is counseling provided? How well is it carried out? Homeowner support is an important component of the Habitat program. "Family Nurture Committees" assist prospective homeowners to prepare for homeownership through classes and one-on-one training. The Habitat evaluation report observed a wide variation in offerings, however, from very limited counseling to extensive programs. Some of the affiliates also match each homeowner with a volunteer who provides ongoing advocacy and mentoring on a variety of issues the family may encounter as new homeowners (Applied Real Estate Analysis 1998, III-18). The Nehemiah programs have also recognized the importance of counseling, although it is not always provided. Seven out of the twelve active sites in the first round of funding incorporated some form of counseling in their programs, usually by referring potential homebuyers to service providers (Phipps, Heintz, and Franke 1994, 2:29).

How are issues concerning asset accumulation treated? Drafters of the 235 program did not include stipulations about how much accrued equity could be retained by these homeowners upon resale of the house. Both the Habitat and Nehemiah programs discourage quick resale of properties with large front-end profits, however. In Habitat, there is a significant amount of variation from program to program. In a sample of nineteen affiliates, five programs placed no restrictions on resale, while the rest required owners to give Habitat the first right to purchase

the dwelling or mandated other types of caps on equity appreciation (Applied Real Estate Analysis 1998, III-6–8). In the New York Nehemiah program, profit was limited for the first fifteen years; thereafter the owner could sell without any price restrictions (Donovan 1994).

Production

Is the quality of the home assured? How is this accomplished? Each Habitat affiliate is responsible for assuring the quality of its homes. The program's extensive reliance on unskilled volunteer labor can lead to poor workmanship, however, which may necessitate redoing the work or result in maintenance problems (Applied Real Estate Analysis 1998, III-15). The local Nehemiah sponsor is likewise responsible for overseeing the quality of all aspects of design and construction. Quality of construction did not appear to be a problem in most of the sites in the first round of the Nehemiah program, and purchasers were very satisfied with their new homes overall (Phipps, Heintz, and Franke 1994, 4:12).

How do the key actors responsible for the production of the houses operate? One of the most important aspects of Habitat and Nehemiah is the significant role of nonprofit organizations. Unlike the 235 program, in which nonprofits provided only limited counseling, Habitat for Humanity and Nehemiah are themselves nonprofits, as are their affiliates. These organizations appear to operate as "watchdogs"—selecting builders, arranging financing, and screening prospective owners. Particularly in the Habitat program, affiliates are extremely involved with all aspects of the construction and screening processes and serve as significant supports to their clients, even years after purchase (Applied Real Estate Analysis 1998, III-20).

Since most of the Habitat affiliates appear to have been created for the specific purpose of participating in the program, the central office of HFHI offers strong guidance, which partly compensates for the lack of experience. Nehemiah affiliates, in contrast, appear to be more seasoned housing developers. Of the fifteen nonprofit organizations selected for the first round of Nehemiah grants, over two-thirds had been in operation more than five years, and six of the groups had previously produced hundreds, if not thousands, of units (Phipps, Heintz, and Franke 1994, 2:8).

In what types of neighborhoods are houses located? Habitat for Humanity builds houses in a wide variety of neighborhood settings. Its reliance on private or public land gifts, however, can create location problems, since donated land may lie in neighborhoods that may not attract homebuyers. Or available land may be dispersed, thereby having little chance of positively impacting a declining neighborhood. In a study of nine local Habitat programs, most affiliates stressed the need to keep costs down and to utilize free or inexpensive land wherever it became available, rather than trying to target specific neighborhoods (Hays 2002,

255). Where large tracts of inexpensive public land are available, even in the midst of less desirable neighborhoods, "the attractive appearance and perceived safety of even a small enclave can offset the otherwise negative neighborhood conditions"(Applied Real Estate Analysis 1998, III-15).

The original Nehemiah program located houses in some of the poorest neighborhoods of New York, with high percentages of African American and Latino households. The two Nehemiah programs in Philadelphia also operate in poor, predominantly African American and Latino areas with high crime rates, high proportions of female-headed households, and household incomes substantially below the area median. The same pattern prevails in other Nehemiah programs (Cummings, DiPasquale, and Kahn 2002; Phipps, Heintz, and Franke 1994, 2:21–22).

None of the other first-round Nehemiah programs was able to achieve the scale of the New York program, in which large numbers of houses were built in a single area. Leaders of the federal Nehemiah program hoped that most of the projects would contribute to a larger neighborhood development strategy but anticipated that the impact of the smaller projects would be relatively low. None of the programs assumed that the Nehemiah activity alone would be sufficient "to turn the neighborhood around" (Phipps, Heintz, and Franke 1994, 2:25). Yet a New York City study found that Nehemiah and other low-income homeownership programs can contribute to increases in surrounding property values (Ellen et al. 2002, 475). At the same time, the impact of poor neighborhood conditions on homeowners can be substantial. Baltimore homeowners, for example, reported significant disappointment at the difficulty of living in an area plagued by drugs, crime, and abandoned structures (Phipps, Heintz, and Franke 1994, 4:13).

Financing

What are the terms of the loans? How is the creditworthiness of buyers assessed? The Habitat program primarily relies on donations of land, materials, money, and labor from corporations, churches, foundations, government, and individuals and provides its own long-term, zero percent financing. This finance model is one of the few requirements mandated by HFHI (Applied Real Estate Analysis 1998, III-9). Home prices are also quite low, and first mortgages generally run for twenty to thirty years. Habitat families may also receive second mortgages, but these are often forgiven after ten years of homeownership (Applied Real Estate Analysis 1998, III-9).

Nehemiah uses its own funds for building and receives repayment from the proceeds from the sale. Buyers typically receive financing at preferential rates. In the first round of projects receiving federal funding, sales prices were set "well below development costs, in order to make the units affordable to

low- and moderate-income households, and to induce homebuyers to invest in neighborhoods they might not otherwise consider" (Phipps, Heintz, and Franke 1994, 3:17). There was also concern, however, that these artificially low prices might become problematic later on if families who need to sell their homes faced outstanding loans that exceeded the resale value. Recognizing this problem, HUD agreed to accept partial payments on the Nehemiah second mortgage (Phipps, Heintz, and Franke 1994, 3:21).

Both programs screen applicants with considerable attention to the capacity of the household to carry the financial responsibilities of homeownership, despite limited family income and resources. In the Habitat program, among a total of ninety homeowners surveyed at nineteen sites, over three-quarters had either low or very low incomes (Applied Real Estate Analysis 1998, IV-8). Habitat requires standard credit information and makes final decisions on an applicant's ability to repay on a case-by-case basis (Applied Real Estate Analysis 1998, III-17). The Nehemiah program targets households with incomes that do not exceed the area median. Ten of the twelve active sites receiving first-round federal funding expected to serve households with incomes less than 50 percent of the area median, and three projects targeted buyers at less than 25 percent of median (Phipps, Heintz, and Franke 1994, 2:27).

How are families facing financial difficulties treated? What measures are taken to prevent foreclosure? Information about efforts to avoid foreclosure was not available for the Nehemiah program, but Habitat works hard to make sure that its homeowners remain homeowners. The major evaluators of the Habitat program noted that no more than 2 percent of the homes in their sample had been foreclosed. They attributed this success to careful screening of applicants; the small monthly payments, which are often less than the household's prior rental costs; repayment flexibility; and close "work with homebuyers to resolve payment problems before they become severe" (Applied Real Estate Analysis 1998, III-19, VI-3).

Most affiliates remain very involved with the collection process, and the "nurturing" offered by HFHI affiliates appears essential. At least 35 percent of the homebuyers in the study had missed monthly payments for three months or more and required special assistance from Habitat. This assistance can take the form of postponing mortgage payments and restructuring the mortgage and property tax payments (Applied Real Estate Analysis 1998, III-19, VI-3). Hays offers a similar finding about the extent of financial difficulties among Habitat homeowners. Although he reported a slightly lower foreclosure rate, he noted that another 8.5 percent of families are one to two months behind on their payments and that Habitat affiliates regularly "struggle with the fine line between allowing reasonable leeway and being taken advantage of" (Hays 2002, 260).

Conclusions

Both the Habitat and Nehemiah programs operated very differently from the Section 235 program across each of the eight dimensions discussed throughout this chapter. This section also includes information from the national homeownership initiatives sponsored by the Neighborhood Reinvestment Corporation and the Enterprise Foundation.

Consumer Issues

Risk Families should be well prepared for the risks of homeownership. If another entity assumes the risk, it should act with the best interests of the consumer. HUD assumed the risk in the 235 program but did not act as a risk taker. Homeowners assume the risk in the Habitat program, but affiliates act as though they have a considerable vested interest in the outcome of each project. State housing finance agencies and HUD assume much of the risk associated with the Nehemiah programs, but here too, the local Nehemiah organizations act as though they are carrying at least a portion of the actual risk. The Neighborhood Reinvestment Corporation and the Enterprise Foundation also assist their local affiliates in managing the amount of risk borne by homeowners. The local groups develop close working relationships with key actors to oversee all aspects of the home purchase process and strongly emphasize homebuyer preparation through counseling.

Counseling Pre-purchase counseling is a very important component of homeownership programs for low-income households. Policymakers acknowledged the importance of counseling in the era of the 235 program, but due to a lack of funding and commitment to these services, counseling was generally not provided. The Habitat and Nehemiah programs both provide counseling, and the level of consumer support is particularly extensive in the Habitat program.

The programs supported by the Neighborhood Reinvestment Corporation and the Enterprise Foundation typically stress the importance of counseling. A report by the Neighborhood Reinvestment Corporation, for example, devotes two of its six sections to this subject and notes that "buyers who understand the home buying process and who are financially ready to assume home-ownership responsibilities" are critical to successful outcomes (DiPetta et al. 2001, 2:2; see also Rohe, Quercia, and Van Zandt 2002; Werwath 1997). Similar observations were made about the positive impacts of post-purchase counseling and the need for homebuyers to be assisted in understanding their home's maintenance needs, impacts of market changes, and opportunities to avoid foreclosure (DiPetta et al. 2001, 5:2; Werwath 1997). The enormous accumulation of information about the efficacy of homeownership counseling, the promotion of counseling programs by the national nonprofits, and the creation of innovative programs by local nonprofit homeownership program providers clearly demonstrates

that homeownership counseling is an important ingredient of a successful low-income homeownership program.

Asset accumulation It is less clear how agencies should structure low-income homeownership programs to enable clients to accumulate assets while preventing them from purchasing below market and quickly reselling at the highest possible price. Habitat and Nehemiah typically require homeowners to remain in their homes for a specified period of time, after which all equity and profits accrue to them. This is an attempt to balance the needs of the original homeowners to accumulate assets with advancing the goal of preserving affordability of the homes for new buyers, at least for a number of years. Studies of programs run by the Neighborhood Reinvestment Corporation and the Enterprise Foundation do not focus on this issue, but all organizations operating low-income homeownership programs invariably confront it.

Production

Building quality Good-quality construction and rehabilitation are self-evidently central to any homeownership program, and poor building quality was a major failing of the 235 program. While there has been some criticism about construction or rehabilitation under the Habitat and Nehemiah programs, these issues appear to be minimal. The nonprofit organizations in charge of the programs appear to play critical roles in minimizing problems with building quality.

Both the Neighborhood Reinvestment Corporation and the Enterprise Foundation also focus on building quality (DiPetta et al. 2001, 1:34). A review of eight NeighborWorks organizations found that nearly all offered inspection services for homebuyers or maintained a list of reputable home inspectors in the area. Many also had full-time construction managers who were available to assist owners deal with the complexities of home renovation (Rohe, Quercia, and Van Zandt 2002, 42; see also DiPetta et al. 2001, 4:2). Similarly, the Enterprise Foundation encourages affiliates to provide pre-purchase home inspections as well as advice concerning home repairs (Werwath 1997, 3).

Roles of key actors One of the major disappointments of the 235 program was the rampant abuse and unscrupulous behavior on the part of the various actors involved with the production, financing, and oversight of the program. These problems do not seem to have appeared in the Habitat or Nehemiah programs, with nonprofit organizations playing a central role in minimizing or eliminating this type of abuse.

The report on the Neighborhood Reinvestment Corporation provides numerous examples of how key actors have been brought into partnership arrangements with the nonprofits operating the homeownership programs. Avoiding adversarial relationships, mortgage lenders and real estate agents join the programs from

the outset and assist in a variety of ways: helping homebuyers to locate homes, providing first mortgages, creating pools of funds to provide additional financing, making outright contributions to the organization, and participating in the counseling programs (DiPetta et al. 2001).

The early experiences with the 235 program underscored that homeownership programs for low-income households must pay careful attention to the many possibilities for private-market actors to take advantage of the generally inexperienced homebuyers. But instead of merely trying to serve as watchdogs, many of the more recent programs appear to be emphasizing how these key actors can work in partnership with the organizations and residents.

Neighborhood factors Like Habitat and Nehemiah, the 235 program often built or rehabilitated houses in distressed neighborhoods. In the nonprofit-run programs there are examples of large, newly built developments becoming neighborhoods within neighborhoods which provide residents with a sense of safety. When the scale of the new development was not large enough to create this environment, however, some new residents reported feeling a sense of vulnerability and isolation.

Programs supported by the Neighborhood Reinvestment Corporation and the Enterprise Foundation often operate in areas with many problems and show how homeownership can benefit these neighborhoods. The Neighborhood Reinvestment Corporation report points out that homeowners tend to move less frequently than renters, thereby fostering social connections, community stability, and civic involvement. Homeownership also boosts the local economy by generating business for lenders, real estate agents, and home-supply stores (DiPetta 2001, 6:2). A number of the homeownership programs supported by the Neighborhood Reinvestment Corporations also sponsor neighborhood improvements, such as downtown revitalization, block enhancements, and various types of social services. The programs sponsored by the Enterprise Foundation have enjoyed some success in revitalizing distressed neighborhoods, "partly evidenced by homes being built and rehabilitated, other visible improvements, and a rising homeownership rate" (Werwath 1997, 4), but less tangible signs of upgrading are difficult to measure.

It is probably unrealistic to expect that any single factor such as low-income homeownership can transform a surrounding area, but it can make an important contribution in conjunction with other types of neighborhood-focused initiatives. As for homeowners who purchase homes in severely distressed areas, homeownership programs should create safeguards for these clients in case they need to sell their homes and the market is too weak to ensure a full return on the investment.

Finance

Loan terms and creditworthiness of borrowers Low-income homeownership programs face a dilemma. On the one hand, there is a desire to make the loan terms as attractive as possible and to set credit limits low enough to qualify as many

households as possible. On the other, it is very important that the financial arrangement carry some measure of risk for the homeowner and that realistic credit assessments discourage households from purchasing when they are unlikely to do so successfully. The 235 program featured lax loan terms and inadequate credit checks, so many people received loans who were ill equipped financially for homeownership.

The Habitat and Nehemiah programs address both these concerns. Habitat homeowners may make no more than a limited financial investment, but when they assume ownership of a home, they have invested a huge amount of their time in the project, and their involvement is substantial. Nehemiah homeowners do not provide sweat equity, but they often make an initial investment of several thousand dollars. And both Habitat and Nehemiah appear to screen participants with considerable care.

Beyond the issue of ascertaining the creditworthiness of the new homeowners, a deep subsidy is the sine qua non of homeownership for low-income households. Subsidies can take the form of front-end grants, "silent" second mortgages, interest rate write-downs, housing vouchers, or donated land, labor, or building materials. In the 235 program the subsidy came in the form of an interest rate write-down, while Habitat and Nehemiah rely on grants and various forms of donations.

Clients of programs supported by the Neighborhood Reinvestment Corporation and the Enterprise Foundation had incomes significantly below the median. The Enterprise Foundation, for example, reports that client incomes ranged from of 30 to 65 percent of the national median income and that subsidies to this group could go as high as $40,000 (Werwath 1997, 4). The Neighborhood Reinvestment Corporation has also been aggressive in devising mechanisms to make homeownership affordable to low-income people. NeighborWorks organizations have developed a variety of flexible first and second mortgage mechanisms, as well as down payment assistance programs. One of the changes in the national secondary mortgage market that now facilitates the financing of homes for low-income households is the willingness of Fannie Mae and Freddie Mac to purchase special mortgage products offered by these organizations. Supplementing these activities, the Neighbor Works network now has its own secondary market operated through the Neighborhood Housing Services of America. In addition, collaborations with the insurance industry have promoted the availability of property casualty insurance and mortgage insurance, with the net result that households are able to borrow at higher loan-to-value ratios.

Foreclosure Observers of the 235 program seldom recognized the poor implementation of HUD's own guidelines concerning mortgagors in default, but this problem is now well documented. While pre-purchase leniency may not be in the buyer's best interests, it is good policy to provide flexible arrangements to prevent foreclosure. The family may have no other place to live, and the house may sit

unoccupied for many months, becoming a target of vandalism and a possible nuisance in the neighborhood. Habitat affiliates appear to expend a great deal of effort assisting homeowners facing foreclosure. Although these arrangements are generally worked out on a case-by-case basis, the image that emerges is one of a consumer-friendly set of supports to help the family keep its home.

While various post-purchase counseling programs offered by affiliates of both the Neighborhood Reinvestment Corporation and the Enterprise Foundation are intended to avoid foreclosure, there are reports that "some lenders working with nonprofits have experienced unacceptable mortgage loan default rates in their community reinvestment programs—in some cases several times the national average" (Werwath 1997, 3). In the experience of Enterprise Foundation affiliates, "diligent and systematized loan collection should keep default rates down to one or two percent." Such efforts may be even more important than post-purchase counseling (Werwath 1997, 4).

Postscript

Both the Habitat and Nehemiah programs have made major improvements over the Section 235 program. Nevertheless, recent studies of low-income homeownership programs operated with assistance from the Neighborhood Reinvestment Corporation and the Enterprise Foundation point out that the challenge of providing homeownership opportunities to low-income buyers is still formidable and requires extensive support. Finding appropriate buyers; providing the needed amount of assistance and information before ownership as well as over the long term; having local sponsors or affiliates that can locate appropriate land and buildings, assemble financing and subsidies, manage the complexities of development, and monitor the other key actors in the development process; and dealing with the various challenges presented by distressed neighborhoods all present significant obstacles. But the desire for homeownership is so strong among so many people, regardless of income, that the quest for optimum programs to serve low-income households continues to move forward.

Since the late 1960s we have learned a great deal about what is needed to promote homeownership for low-income urban households. This collective wisdom has led to scores of excellent programs that do not require or expect purchasers to shoulder all the risks and complexities of ownership on their own. Yet these programs are still not remotely able to reach all interested and eligible purchasers. Despite what we have learned, there is very little federal funding available to support low-income homeownership in general, but particularly urban homeownership.[16]

16. The little funding that is available for low-income urban homeownership comes through several broad programs. Both the HOME and CDBG (Community Development Block Grant) programs provide block grant funding from HUD to state and local governments. Assistance for homeownership programs is among the eligible uses of these funds. The CDBG program

In 1976 I noted that homeownership for low-income (non-rural) households had not received a fair test at the national level (Bratt 1976). More than thirty years later, the same conclusion holds true. The only difference is that we now have a far better understanding of what such a program would entail, and we have concrete evidence that homeownership programs for low-income households can be successful. While the initiatives of Habitat and Nehemiah, as well as the programs sponsored by the Neighborhood Reinvestment Corporation and the Enterprise Foundation, provide compelling evidence that such programs are viable, the scale of these efforts is such that they will never be able to reach all potential clients. Moreover, to make greater strides in closing the gap between minority and white ownership rates, a federal role is clearly needed.

Although homeownership programs aimed at low-income households are not easy to carry out, the problem today is one not of knowledge but of political will. And that political will must also extend beyond homeownership. We need a federal commitment to a robust housing agenda, including subsidies for rental housing and for various types of transitional and special needs housing. Only a well-funded, multifaceted housing policy will be able finally and fully to achieve the national housing goal, which is still unrealized more than a half century after it was first declared by Congress.

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allows funding to be used for a wide range of purposes, while the HOME program is targeted to housing. As discussed in note 5, Housing Choice Vouchers can now be used for homeownership.

PART II

Political Perspectives

As discussed in several previous chapters, the promotion of homeownership has been an important political platform and policy objective of a number of federal administrations. Both the Clinton and Bush administrations made the expansion of homeownership opportunities to minority and other underserved households a major policy priority. Yet the political preference for promoting homeownership over rental housing is not confined to the federal level. In recent years, local governments have also been allocating larger proportions of their housing budgets to homeownership promotion.

The two chapters in this section address the political dimension of affordable homeownership at both the federal and local levels. One fundamental political question is: Why should government actively promote homeownership as a preferred form of housing tenure? The simple answer to this question is that promoting homeownership is good politics. That is, since most renter households aspire to own their own homes, while existing homeowners see benefits to increasing the homeownership rate, politicians who promote homeownership programs have an advantage at the polls.

A deeper analysis, however, suggests that there are several compelling arguments for government intervention to expand homeownership opportunities. In chapter 4, J. Michael Collins presents those arguments and then reviews the major federal homeownership policies with an eye toward the degree to which they are furthering important public policy objectives. On the basis of this review, he concludes that federal homeownership policy lacks focus and coherence, and he calls for a reassessment that would better target federal resources toward helping renters make the leap to homeownership.

Local politics also plays an important role in determining support for expanding homeownership opportunities. It is at the local level that decisions are made

to allocate both federal and local housing assistance to either homeownership or rental assistance programs. Much of the federal support for housing is provided to local governments in the form of block grants that allow the support of both owner-occupied and rental housing programs. Both the CDBG and the HOME programs, which provide over $6 billion per year to local governments, allow local jurisdictions to determine the allocation of funds among eligible uses, including rental assistance and affordable homeownership programs. Moreover, many local governments allocate locally generated funds to address local housing programs, and each determines the degree of support for affordable rental or owner-occupied housing.

In chapter 5, Edward Goetz considers how the emphasis on homeownership programs has fundamentally altered community development initiatives in many cities. He argues that the emphasis on increasing homeownership in areas targeted for revitalization eclipses the need for improvements to both rental housing and public services in these areas and favors moderate-income households over lower-income ones. He is also concerned about the perception that rental housing brings crime and neighborhood decline while homeownership is a remedy for those problems. He describes housing tenure as a new fault line, in addition to race and class, in the politics of local community development.

4

Federal Policies Promoting Affordable Homeownership

Separating the Accidental from the Strategic

J. MICHAEL COLLINS

The federal government has promoted homeownership in various forms for almost a century. Yet the underlying principles of federal homeownership policy are often taken for granted, with scant critical analysis. This chapter develops a framework for analyzing federal homeownership policies, including three fundamental rationales for government intervention and four mechanisms for implementing policies. I then review ten major federal policies related to homeownership, analyzing the strategic intent of each and how it might be tailored to impact more purposefully first-time and ongoing homeownership.

In 2001 over 70 million households owned their own homes; more than 5 million households purchased homes, over 40 percent of whom were previously renters (Bureau of the Census 2001, tables 3–10). Potential buyers typically rely on a real estate agent to help them search for a home, and on private appraisers, attorneys, and inspectors to offer judgments at various stages of the home-purchase transaction. Mortgage brokers and financial institutions evaluate loan applicants and provide access to mortgage loans, often through secondary markets to investors on Wall Street. The public sector provides a regulatory framework, cash subsidies, tax advantages, and credit enhancements, implicit and explicit, all of which facilitate homeownership. The nonprofit sector also plays a role, serving as housing developer, homebuyer educator, and an administrator of financial assistance.

While this system of public-private relationships has evolved over the last century to support record levels of homeownership, it is difficult to point to a specific strategy the federal government has employed consistently as contributing to this success. In fact, reviews of federal policies (Carliner 1998; Hays 1985; Mitchell 1985) suggest that the evolution of mechanisms supporting homeownership has been less than strategic. Carliner (1998) argues that there

have been very few explicit attempts to promote homeownership in the United States, despite the fact that every administration since the 1920s has articulated great rhetorical support for homeowners. The promotion of homeownership, let alone affordable homeownership, has at best been a rationale of convenience for policymakers. Table 4.1 reviews twenty-two federal policies developed over eight decades related to promoting homeownership. Some are clearly devised to serve special interests such as veterans, senior citizens, or residents of rural communities. Others are designed to support job creation or stimulate the banking industry. In a few cases, what is now viewed as a homeownership policy was actually created in response to broader changes in tax or other regulations. This review shows that few federal programs specify homeownership as a reason for passage.

Table 4.1. Timeline of Major Homeownership Policies, 1918 to 1997

Year	Policy	Original Basis of Legislation
1918	"Own Your Own Home Campaign"	Project of the Commerce Department to engage over 7,000 civic partnerships called "Better Homes Committees," to promote homeownership
1932	Federal Home Loan Bank System	To shore up failing savings and loans and mutual savings institutions in the Depression by providing liquidity across regions
1934	Federal Housing Administration (FHA)	To stimulate the construction industry by building homes and apartment buildings
1938	Fannie Mae	To buy or hold loans from banks during credit shortages, selling loans back in gluts
1938	FHA authorized to insure 25 year loans with 10 percent downpayments	To expand homeownership opportunities
1944	GI Bill: VA mortgage insurance	To provide zero downpayment loans; perceived as low-cost benefit for veterans
1949	Rural Housing Administration (RHS)	To support farmers and residents of agricultural areas with mortgage insurance and subsidized mortgage interest rates
1951	Capital gains from sale of home allowed to be rolled-over to another home	To encourage home sales in reaction to tight housing markets after veterans returned from World War II
1954	Fannie Mae rechartered	To provide special assistance (subsidy) to construction and home purchase loans
1964	Capital gains in home sales allowed to be excluded (onetime) from taxation for seniors	To prevent seniors from being trapped in higher-cost, larger-size homes

Table 4.1.—*cont.*

Year	Policy	Original Basis of Legislation
1966	FHA Section 221(h) subsidized loans	A pilot to experiment with directly subsidized home mortgages for minority families in the face of discriminatory "redlining" practices
1968	FHA Section 235 subsidized loans	To directly subsidize home mortgages for lower-income families (terminated in 1987)
1968	Fannie Mae becomes private "sponsored enterprise"; Ginnie Mae takes over Fannie Mae special-assistance function	To pump financing into mortgages and residential construction due to high interest rates in the mid-1960s and perceived demand from Baby Boomers seeking new homes
1970	Freddie Mac created	To purchase single and multifamily mortgages from the Federal Home Loan Bank system in response to credit shortage in late 1960s
1975	Home Mortgage Disclosure Act	To address "redlining" of low-income and minority areas by lenders
1977	Community Reinvestment Act	To push lenders to balance deposits with lending in underserved communities
1980	Limitations on Mortgage Revenue Bonds to low and moderate-income borrowers	To address perceived tax-free windfall as state and local governments issued growing numbers of tax-exempt bonds
1984	Mortgage Credit Certificates	To address concerns over the fees collected by mortgage revenue bond underwriters
1986	Tax Reform Act retained mortgage interest deduction but eliminated all other interest deductions	The mortgage industry reversed a Reagan administration proposal to eliminate all interest deductions; the mortgage interest was the only interest deduction retained
1990	HOME Program	Specifically called out homeownership as a goal
1996	SHOP (Self Help Ownership Program)	To purchase land and fund infrastructure for sweat equity homebuilding programs
1997	Taxpayer Relief Act excludes all capital gains on home sales up to $500,000	To address perceived incentives for urban property owners to buy more expensive suburban homes

Source: courtesy of Carliner, 1998.

Why Support Homeownership through Federal Policies?

A renewed focus on homeownership policy issues at the federal level in 2001 roiled advocates for rental housing, provoking a debate over the use of limited federal resources and oversight for owner-occupied versus renter-occupied housing (Pitcoff 2003). In part, this debate highlights the confusion over the ratio-

nales for homeownership-related policies. The logic of providing any support for homeownership has three complementary components. First, homeownership produces positive externalities for communities, and too few renters would become homeowners than would be optimal for society without some incentives from the public sector. Second, there is a stubborn discrepancy in homeownership rates among households due to historic inequities and discrimination, preventing targeted groups from participating in the private benefits of homeownership. Third, due to the magnitude of home equity in individual households' portfolios, and the commingled risks for those households and the broader financial markets, the federal government is justified in supporting homeowners and mitigating potential risks. Each of these rationales is rooted in very different policy goals. Frequently arguments over homeownership policies are based on a lack of clarity as to which policy rationale is at stake. Each of these three rationales is explained in detail in the following sections.

Rationale 1: Expanding Homeownership Produces Positive Externalities for Society

By supporting homeownership, federal policies leverage positive spinoffs for communities and residents. These positive impacts of homeowning are valuable to society and constitute part of the so-called "American Dream" of homeownership. For example, studies suggest that homeowners are more likely to be engaged in civic organizations and to participate in elections than similar renters (Dietz 2003). By taking part in improvement activities, owners contribute to making neighborhoods better for all residents (DiPasquale and Glaeser 1997). Neighborhoods with higher homeownership rates tend to be in better physical condition than those with lower rates of ownership, and residents in these areas display superior property upkeep and maintenance behaviors (Haurin, Dietz, and Weinberg 2002). Increased investment in a neighborhood by owner-occupants can be a signal of confidence to neighbors and the housing market. To the extent that ownership also prevents vacant housing, owner-occupied homes preclude blighting negative externalities for nearby homes.

While all residents of a community may benefit from an improved quality of life due to increased homeownership, landowners in particular will benefit financially if real estate markets incorporate improvements in quality into property values. In effect, federal subsidies for ownership enhance the economic value of land, benefiting both owner-occupants and absentee real estate investors. Renters in areas with rising ownership are not excluded from the social and physical externalities of ownership, but because rents generally follow real estate values and reflect demand for units in quality communities, they will face rising housing costs with no opportunity to benefit economically from escalating land values.

It should also be noted that, despite a growing body of research, it remains unclear whether homeownership itself is the cause of positive externalities. Many

of the benefits of ownership are closely related to the social and economic attachment associated with longer periods of residence rather than formal tenure choice. Homeowning, however, is clearly associated with longer tenure periods as well as property upkeep behaviors and provides an accessible mechanism for households to invest in real property. Moreover, the desire or demand to own a home is strong across all socioeconomic groups (Fannie Mae Foundation, 2002). Nevertheless, some households may never choose to own a home, whether because the relative costs of renting are lower, because of the desire to be able to relocate quickly, or even because the household cannot stomach the potential risks of owning a home—from maintenance to foreclosure. While owning a home creates more value than is realized by individual homeowners, households unprepared for homeownership should not be made worse off by being pushed into ownership for the marginal benefit created for the broader society.

The rationale of homeownership's positive externalities suggests two directions for homeownership policy. First, federal policy should create incentives for households who do not currently own one to buy a home. This can be thought of as producing a *first-time* effect by encouraging renters on the margin to become homeowners. These incentives should be targeted to those households that otherwise would not buy a home. Incentives should not be targeted to renters who can become owners in the absence of assistance. The second policy direction suggested by the positive externalities rationale is to create an incentive for households to remain homeowners and not revert to renting. This can be thought of as the *ongoing* effect. Ideally only households that would not continue to own anyway would be targeted. What is important is that the intent of policies with either first-time or ongoing homeownership effects is for households simply to own homes, not to buy larger homes, take on larger mortgages, or purchase multiple homes. This rationale is supported by encouraging households to decide to purchase a home and remain homeowners over time.

Rationale 2: Equitably Promoting the Private Benefits of Homeownership

In addition to the social or public externalities related to homeownership, there are significant private benefits to homeownership, the most notable being asset accumulation. The median wealth of homeowners is thirty-six times that of renters, and more than half of the net worth of households is stored as home equity (Federal Reserve Board, 2001). But homes are more than a financial investment. Children of homeowners tend to have better educational and life outcomes than children of renters, including being more likely to graduate from college, more likely to become homeowners themselves, and less likely to engage in delinquent behaviors (Dietz 2003).

But all households do not have an equal chance of realizing these benefits. In recent years, with homeownership rates at all-time highs, policymakers have

highlighted the lagging ownership rates of particular demographic and economic subgroups as a pressing issue. In 2001, only 49 percent of the lowest-income households lived in owner-occupied homes, as opposed to 68 percent of all households, and 91 percent of the highest-income group (table 4.2). Likewise, minority homeownership rates are 20 percentage points below the national average. While these gaps in homeownership rates strike many observers as inequitable, it is reasonable to assume that there may never be consistency in homeownership rates (Gabriel 2001). Differences in household type and age, location, income, education, mobility, and immigration status will likely always result in variations among homeownership rates. But there are substantial gaps in homeownership attainment between races, even when we control for marriage, central-city location, age, and education (Oliver and Shapiro 1997).

Low-income and minority households may be hampered from buying a home by several factors. Frequently renters seeking to become homebuyers lack enough income to afford the monthly payments of principal, interest, taxes, insurance, and maintenance on homes available for purchase in their community. Related to the income affordability barrier is the lack of savings for a down payment and closing costs. Poor credit history, which may prevent approval for a mortgage loan, or may result in a high interest rate if a loan is approved, also serves to limit access to homeownership. Finally, a lack of information about finding a home and a mortgage, as well as discrimination in the marketplace keeping certain homes and mortgages out of reach of some potential buyers, also prevent some families from becoming homeowners. The historic legacy of racial discrimination and segregation has excluded minority and low-income families from owning homes and building home equity which can be passed on to successive generations. Combined with employment and educational disparities, these factors place additional limitations on minority and low-income households in accessing homeownership. To the extent that the federal government seeks to remedy this legacy of discrimination, or to distribute the private

Table 4.2. Homeownership Rates (in Percent) by Income, Location, and Race, 2001

	Income					
Location or Race	Less than $14,999	$15,000 to $29,999	$30,000 to $49,999	$50,000 to $99,999	$100,000 or more	Total Homeowners
African American	32.0	39.8	49.3	67.4	87.1	47.5
Latino	31.1	36.6	46.8	66.0	79.6	48.2
Central city	32.6	42.7	50.5	70.1	82.6	53.2
Suburb	56.2	60.9	66.9	82.0	93.1	73.6
Total homeowners	49.4	57.1	63.9	80.1	90.9	68.0

Source: 2001 American Housing Survey; author's tabulations.

benefits of homeownership more equitably, polices targeted to underserved populations are necessary.

Rationale 3: Promoting Homeownership to Stimulate the Economy and Stabilize Financial Markets

Historically, the role of homeownership in the economy is a frequently cited rationale for federal homeownership policies. For example, FHA mortgage insurance was largely created to stimulate the homebuilding and banking industries during the Great Depression. Likewise, the tax deduction for mortgage interest is defended for its impact on mortgage markets. As more households own homes and invest their personal assets in real estate, the size of the mortgage market grows. All homeowners have home equity at risk and need ready access to mortgage loans in order to sell or refinance their home. In addition, the home construction industry is a significant part of the economy, supporting millions of jobs (Millennial Housing Commission 2002). A downturn in the homebuilding sector can have a significant effect on local and national economic activity.

Thus, most policymakers view the performance of the owner-occupied real estate and mortgage finance markets as being closely linked to the state of the economy. Policies are designed to boost these sectors, and policies that might depress these sectors are generally dismissed. The result is that the risks and rewards for homeowners and housing markets become commingled with policies focused on the economy generally. Not only do homeownership policies provide the federal government with a tool to stimulate the economy, but also the federal government may use such policies to attempt to protect households from risks that might reduce the value of their home or harm real estate markets. Policies that are perceived to reduce the volatility of housing markets may be justified on the grounds of reducing as well the possibility of adverse impacts on the broader economy. This "economic stability" rationale is frequently used to support federal policies thataim to strengthen the mortgage, construction, and real estate industries.

Economic stability is not an externality but rather a public good, like national defense. The benefits of a stable economy are spread among all residents, regardless of tenure. The value of expanding economic activity is not excludable, nor does any one household's participation in a growing economy diminish the value for others. This suggests that all taxpayers should contribute to support homeownership at some level, since all will benefit.

The challenge facing this policy rationale for homeownership is that the exact method through which federal policies impact the economy is not always well understood. Moreover, there is often disagreement as to how government intervention on behalf of specific industries or firms can create or mitigate risks in the economy. Because homeownership policies can distort the behavior of firms in the market, it is possible that federal polices serve to concentrate or even exacerbate risk. To the extent that lending industries, for example, are provided

with federal supports which sever them from market mechanisms, they may take on more aggressive loans than they would without government support. The more firms are protected from the financial liability of losses, the more they will take on additional risk. Federal policies have to strike a delicate balance between stimulating or stabilizing markets and not encouraging too much risk-taking.

Policy Mechanisms Available to Support Homeownership

Given the three policy rationales just described, mechanisms for implementing polices need to be considered next. Policy options for promoting homeownership fall into four categories: subsidies, credit enhancements, regulations, and public awareness campaigns.

Subsidies

The intent of any subsidy provided by the federal government is to change behavior—to create an incentive for consumers or firms to act in a socially beneficial manner. In homeownership policy, subsidies are intended to spur renters to buy a home, or to encourage existing owners to retain their tenure.

Subsidies for homeownership can be divided into two subcategories: those directly appropriated and those provided through the tax code. Appropriated subsidies are direct grants and must go through the process of annual budget submissions by the White House, then be approved in budget bills in the House and Senate. Of the roughly $31 billion Department of Housing and Urban Development budget in 2002, approximately 20 percent was used to support homeownership programs through appropriated subsidies and grants.

In contrast, of the $84 billion in estimated tax expenditures for housing in 2001, approximately 92 percent was targeted to homeownership (Joint Committee on Taxation 2001). Tax subsidies are classified as either tax deductions or tax credits. Tax deductions are claimed by taxpayers on their tax returns to reduce taxable income and therefore reduce total tax liabilities. In a progressively structured tax rate system, a one-dollar deduction from income taxed at 33 percent rate is worth $0.33 in reduced tax payments. A taxpayer in a lower 15 percent marginal tax bracket, however, receives only $0.15 in tax relief for that same one-dollar deduction. As a result, taxpayers with more of their incomes in higher marginal tax rate brackets benefit *more* from tax deductions than taxpayers with most of their income in lower marginal brackets.

Tax credits actually offset the amount of total tax due rather than just reduce the amount of income subject to tax. Since tax credits are of little value to taxpayers with low tax bills, credits are sometimes sold to corporations or individuals with larger tax liabilities. Although tax credits can be made refundable, meaning taxpayers would receive a refund check in the amount of any unapplied credit,

because of fraudulent tax credit activity in the past, policymakers rarely allow refundable tax credits (Collins, Belsky, and Retsinas 1999).

Credit Enhancements

No investor has a lower cost of capital than the federal government, an entity with an almost unlimited ability to issue tax-free bonds perceived as being virtually risk-free. Federal credit enhancements can help risk-averse lenders and investors establish new markets, or create an incentive for lenders to enter into market segments that further social policy goals. In homeownership, Federal Housing Administration mortgage insurance serves as a credit enhancement providing the full faith and credit of the U.S. government to mortgages targeted to modest-income borrowers. The FHA actually collected $2.9 billion in surplus premiums in 2002—funding used to support other parts of the federal budget.

Other federal insurance programs require an annual direct appropriation to subsidize programs with premiums priced below the actual loan losses involved. Government-sponsored enterprises (GSEs) benefit from a so-called "implied" credit enhancement, which investors interpret as meaning that the federal government will not let a GSE fail, and will step in to protect investors. The potential liability to the federal government in a worst-case scenario can be massive.

Credit enhancements are also difficult to target to specific populations. About a third of the credit enhancements provided to the GSEs Fannie Mae and Freddie Mac, for example, flow to stockholders rather than homeowners (Congressional Budget Office 2001). More than any other intervention, however, credit enhancements have the leverage to establish and stabilize capital markets, stimulating economic activity.

Regulation and Oversight

Purchasing a home is a complex transaction from the consumer's perspective, involving carefully–defined properties and relatively large, long-term contracts. There are multiple parties involved in a home purchase, and numerous potential conflicts. By establishing a transparent marketplace, with standard processes and regulations designed to prevent discrimination or fraud, homebuyers, home sellers, lenders, and other parties to the transaction benefit. Regulations administered by the Federal Reserve, HUD, and other agencies all serve this function to a degree.

Regulatory changes are common, and often do not require legislation or a significant appropriation of federal resources. Regulatory bodies, however, are a disparate set of institutions with varying degrees of independence. Confusion over regulatory purview and precedence is not uncommon. And while regulations may not represent significant costs to the federal budget, they do entail time delays, as well as legal and compliance costs for consumers and industry. Of course, regulations also must be sufficiently enforced to be effective. This requires

ongoing federal appropriations for regulatory agencies. Nevertheless, regulations, oversight, and standard setting are some of the more powerful homeownership policy functions available to the federal government.

Public Awareness

Nearly every president since the turn of the century has used the "bully pulpit" of the White House to express support for homeowners and the concept of homeownership. The rhetoric is typically backed by political calculus. Homeowners are likely voters, many non-owners aspire to own a home, and increasing homeownership is generally perceived as evidence of a prosperous society. Indeed, rarely does support for homeownership result in a negative reaction from the public. Moreover, public announcements do not entail any budget appropriations yet still yield positive attention from the real estate, financial, and homebuilding industries, as well as the general public.

There are remarkable similarities between the October 2002 Blueprint for the American Dream homeownership project of the George W. Bush administration and the Clinton administration's 1994 National Homeownership Strategy. Both sought to rally existing private-sector partners collectively to reach a numerical goal, essentially by tallying up the activities of a broad set of private institutions and existing federal programs. Ideally, awareness campaigns are adjuncts to programmatic strategies, combining subsidies, regulations, and credit enhancements in a comprehensive package. Frequently the bully pulpit does not extend to substantive new approaches, however.

Review of Federal Homeownership Programs

There are many state, federal, and local programs that intend to promote homeownership. This section reviews ten of the most significant policies (see table 4.4, pp. 80–81). Each is considered in the context of its mechanism, potential rationale for intervention, targeting, and effectiveness.

Mortgage Interest Deduction

The mortgage interest deduction is a subsidy for homeownership delivered through the tax code. Mortgage borrowers may deduct mortgage interest if a taxpayer's total deductions are greater than the standard deduction ($9,700 for married persons filing jointly in 2004). This can help reduce tax liabilities for homebuyers, and thus increase the amount of income available for monthly housing payments. The mortgage interest deduction is the second-largest tax expenditure for individuals in the federal budget after the exemption of contributions to pension funds. Utilized by 31 million taxpayers and valued at $61 billion in

Table 4.3. Estimated Volume and Cost of Homeownership Promotion Policies

Federal Policy Response	Estimated Annual Volume	Estimated Cost to Federal Government
Mortgage revenue bonds	87,000 households	$1.1 billion
Mortgage credit certificates	2,600 households	$1 million
Subsidized loans	30,000 households	n/a
Government-sponsored enterprises	3,000,000 purchase loans	up to $14 billion
Deductibility of mortgage interest	31,000,000 households	$61 billion
Section 8 homeownership vouchers	300 households	***
Mortgage interest buy-downs	1,000 households	***
Down payment assistance (HOME, CDBG, AHP, HFA, and CDFI)	30–40,000 households	n/a
Capital gains exclusion for homes	n/a	$13 billion
FHA/VA/RHS mortgage insurance	1,200,000 households	generates revenue
GSE affordable housing goals	600,000 purchase loans	***
Community Reinvestment Act (CRA)	$1.2 billion in loans	***
Truth in Lending	All closed loans	***
Real estate settlement procedures	6,000,000 homes sold	***
HUD section 108 counseling funds	125,000 individuals	$35 million
Fair housing	10,000 cases	$45 million
Manufactured home standard (HUD-code)	250,000 homes	***
HOME and CDBG	10,000 homes	n/a
SHOP	5,000 homes	$25 million

Source: author's compilation.
*** = negligible.

2001 (see table 4.3), this deduction amounts to twice the amount allocated to all direct federal housing subsidy programs in the United States (Joint Committee on Taxation 2001). The value of the subsidy delivered through tax deductions is determined by the filing behavior of taxpayers rather than by legislation. In addition to mortgage interest, homeowners can also deduct real estate taxes on their property and are exempt from capital gains taxes when they sell their homes.

The mortgage interest deduction is not well designed to support homeownership. The deduction is primarily an incentive to borrow by using mortgage debt rather than to become a homeowner. It is therefore less an incentive to convert from renter to homeowner than a support for existing homeowners, encouraging households to take out larger mortgages to pay for nonhousing consumption or even second homes (Follain and Melamed, 1998). The deduction also encourages

4. Federal Homeownership Programs, 2003

ogram	Mechanism	Rationale	Target	Comment	Enhancement
interest ion	Tax subsidy (reduces cost of borrowing)	1. Increase ownership	All mortgage debtors	Not well targeted; incentive to borrow more as opposed to convert renters to long-term owners	Allow tax credit for low-incon out deduction by income o home values
	Credit enhancement (expands qualified pool of borrowers)	1. Increase ownership 2. Reduce disparities 3. Stabilize mortgage market	First-time buyers Minority/ low-income Mortgage lenders and investors	Existing products not competitive with private or conventional loans Well-targeted but losing market share Catastrophic risks are low	Fewer borrower requirements greater credit and collatera reduce pricing to break-ev subsidized levels
revenue	Tax subsidy (reduces cost of borrowing)	1. Increase ownership 2. Reduce disparities	First-time buyers Minority/ low-income	Well-targeted, but shallow subsidy may not change behavior; relatively small scale	Fewer borrower requirements greater credit and collatera reduce pricing
yment	Cash subsidy (wealth transfer for purchase)	2. Reduce disparities	Minority/ low-income buyers	Strong incentives to convert to ownership; one of only wealth/ asset grants offered by government; zero–down payment mortgages common	Grants are less efficient than loans; replace with more a FHA insurance and subsid
d loans	Cash subsidy (reduces cost of borrowing)	2. Reduce disparities	Minority/low-income buyers	Incentive to convert to ownership; reduces ongoing cost of ownership	Streamline delivery system fr sector to private sector

unity vestment	Regulation	2. Reduce disparities	Low-income and minority households and borrowers in "underserved" areas	Creates modest incentives for more aggressive loans products and programs	Expand to broader set of m lenders to cover more m
ment- sored enter- s and dable ing goals	Regulation	1. Increase ownership 3. Stabilize mortgage market	Low-income and minority households and borrowers in "underserved" areas	May support innovation; supports stable mortgage market; impact unclear	Increase goals for first-time expand product line to l mortgage market
ure	Regulation	1. Increase ownership	All homebuyers or mortgage borrowers	Creates standardization in transactions; complex documents and procedures remain difficult to understand	Simplify documents and p increase transparency
g seling	Cash subsidy (reduce cost of information)	1. Increase ownership 2. Reduce disparities	First-time and existing homebuyers	Can overcome information barriers but quality uneven	Establish standards; expand develop sustainable deliv
pment dy	Cash subsidy (reduces cost of homes)	2. Reduce disparities	Low-income, first-time homebuyers	Creates affordable homes not provided by private sector; need varies by region	Streamline subsidy admini to regulatory relief

rce: author's estimates.

households to prefer mortgage debt over other forms of debt, as well as to forestall paying off mortgages (Glaeser and Shapiro 2002).

The mortgage interest deduction is not well–targeted either. In fact, most lower-income taxpayers take the standard deduction; hence homeownership does not help lower their taxes. Moreover, the progressive nature of federal income tax rates results in lower-income owners' receiving smaller deductions as a percentage of their incomes in comparison to more affluent buyers even if they do itemize their deductions.[1] Also, more expensive homes result in larger interest payments and, therefore, larger tax deductions. Fully 93 percent of the value of the mortgage interest deduction is claimed by homebuyers with incomes of $50,000 or more (Joint Committee on Taxation 2001). Almost 32 million tax filers claimed this deduction in 2000, averaging $1,900 in tax savings per return. But only 6 percent of the 21.4 million owner households with incomes below $30,000 claimed the deduction, each receiving on average $413 (see table 4.5).

Certainly the mortgage interest deduction is an incentive for some renter households with higher incomes to consider homebuying, and perhaps for some households it encourages continuing to own a mortgaged home. The deduction represents a reasonable approach to promoting the positive externalities of homeownership for the broader public. It could be better targeted, however, to promote

Table 4.5. Estimates of Federal Tax Expenditures 2000

Income Class ($)	Returns	Percent	Amount ($)	Percent	Mean Claim ($)
Below 10,000	12,000	0	1,000,000	0	83
10–20,000	272,000	1	105,000,000	0	386
20–30,000	906,000	3	386,000,000	1	426
30–40,000	2,141,000	7	1,194,000,000	2	558
40–50,000	3,016,000	9	2,591,000,000	4	859
50–75,000	8,071,000	25	8,165,000,000	13	1,012
75–100,000	7,130,000	22	12,423,000,000	20	1,742
100–200,000	8,097,000	25	22,131,000,000	37	2,733
Over 200,000	2,164,000	7	13,619,000,000	22	6,293
Total	31,809,000	100	60,615,000,000	100	1,906

Source: "Estimates of Federal Tax Expenditures for Fiscal Years 2001–2005," Joint Committee on Taxation, April 6, 2001.

1. Married taxpayers filing jointly with incomes above $137,300 (in 2003) may be subject to the Alternative Minimum Tax (AMT). Also, deductibility is limited on mortgages over $1 million, and home equity loans are also limited to $100,000 in most cases. See also http://www.irs.gov/pub/irs-pdf/p936.pdf.

first-time homebuying and also eliminate the incentives for purchasing second homes or mortgages over a maximum value. For example, mortgage interest might be ruled nondeductible for any amount on a mortgage over $500,000, while first-time borrowers ineligible for itemized tax deductions might receive a tax credit for three years for the value of interest paid. Such changes, phased in over a number of years, would help focus the deduction on helping families convert to homeownership while providing incentives to remain a homeowner. Politically the mortgage interest deduction is very popular and is fiercely defended by the mortgage and real estate industries. Any changes in this policy would be difficult to enact.

Federal Mortgage Insurance

Mortgage insurance is one of the oldest and largest credit enhancements provided by the federal government for homeownership. There are several federal programs offering mortgage insurance for homebuyers. FHA is the largest program, supporting 800,000 mortgage loans in 2001. The Rural Housing Service (RHS) provided 38,000 loan guarantees in 1999 for borrowers in rural areas, and the Department of Veterans Affairs (VA) insured 328,000 mortgages for veterans, service personnel, and spouses in 2002.

Mortgage insurance provided by the federal government supports loans with flexible underwriting, including low down payments, high payment-to-income ratios, and allowances for flawed credit histories. FHA and similar programs help first-time homebuyers convert from renting to homeownership. The rationale for these government interventions is that they expand first-time ownership, and therefore the public externalities of ownership. Special credit enhancement programs for underserved groups are also justified on the rationale that inequities in mortgage and real estate markets result in low-income and minority households' being excluded from the benefits of homeownership. Focus groups with minority borrowers indicate that they select FHA loans because of the implied trust and confidence of the federal government, which is particularly valued by consumers who have had difficult histories with the financial sector.[2] Studies suggest that the FHA supports increased homeownership among minorities and young families (Monroe 2002). FHA mortgage insurance also supports the rationale of federal involvement to stabilize the mortgage market and therefore the broader economy. Private mortgage insurance, which operates without federal involvement, covers a smaller portion of the loan balance, typically 25 to 35 percent of a loan's original value, whereas FHA insurance allows lenders to claim a payment of up to 100 percent of the original loan balance in the event of a foreclosure. FHA's deep coverage in case of catastrophic losses protects lenders and investors against the risk of losses in a deep recession, when housing prices decline significantly and many borrowers default. While the probability of such an event is low, the existence of a federal

2. Interview with William Apgar, former FHA commissioner, 2003.

credit enhancement may make mortgage investors and lenders more confident about participating in the market.

Because mortgage insurance increases the effective interest rate of a loan, and lower down payments result in larger mortgage balances, these programs result in larger monthly payments for homebuyers, which may make homeowning unaffordable for some families. Without down payment subsidies or premiums priced below break-even, mortgage insurance will create homeownership opportunities only for households with sufficient income.

Determining the best role of federal mortgage insurance programs in a rapidly evolving mortgage market is a growing challenge. Instead of rationing credit to the most creditworthy applicants, the mortgage market today will provide loans to most applicants, with additional fees and higher interest rates for higher-risk borrowers. For this reason FHA's growth rates lagged the conventional market for every racial and income group from 1993 to 2002 (Federal Financial Institutions Examination Council [FFIEC] 2003).

The desire to stabilize FHA's operations has led to several reform proposals (Millennial Housing Commission 2002). Ideas range from more outsourcing, to partnering with private mortgage insurers, to chartering FHA as an independent, government-owned corporation. FHA has proposed creating new programs with no down payment requirements, as well as mortgages for borrowers with sub-prime credit. Congress, which has to approve such programs, is reluctant to provide support due to the possibility of high default rates and a reduction in FHA's surplus.

If, however, a purpose of FHA is to support targeted populations to become first-time buyers, rather than generating revenue, pricing of premiums might be deliberately set to subsidize borrowers. That would require federally appropriated expenditures, or cross-subsidization of targeted households with surpluses from other programs, but could refocus FHA as a mechanism for truly promoting first-time buyers from underserved populations. As it stands today, FHA is essentially a tax on homebuyers, because premiums are priced above the borrower's actual risk. Excess premiums are transferred to the general revenue of the federal government.

Mortgage Revenue Bonds

One of the best-known mechanisms for helping reduce borrowing costs for first-time homebuyers is the sale of single-family housing bonds, known as mortgage revenue bonds (MRBs). MRBs are sold to investors in order to finance below–market interest rate mortgages. Investors are willing to purchase these bonds at below-market interest rates because the income from MRBs is tax-free. State housing finance agencies are allocated a per capita amount of tax-exempt housing bond authority each year. MRB-backed loans are limited to first-time homebuyers who earn no more than the median income in their

area. If a borrower's income rises above eligible levels, up to half of any profit from the sale of the financed home may be recaptured for up to nine years. Approximately 87,000 homeowners were aided by single-family MRB-backed mortgages in 2001; estimates of the cost of taxes forgone are approximately $1.1 billion (Joint Committee on Taxation 2001).

There are two policy rationales for MRBs. First, by lowering the monthly carrying cost of mortgages with subsidized interest rates, MRBs help make owning a home affordable. This supports the threshold effect of converting renters to first-time homebuyers, thereby expanding positive externalities for society. Second, MRBs targeted to lower-income households serve to overcome the inequitable distribution of homeownership and expand its private benefits for underserved households.

There are significant administrative costs to state agencies for underwriting and issuing bonds with Wall Street firms. As a result, MRBs offer a relatively shallow subsidy to borrowers, typically less than one percentage point below prevailing market rates. Because borrowers typically also lack a sufficiently large down payment, approximately 70 percent of MRB-backed loans carry FHA mortgage insurance (National Council of State Housing Agencies [NCSHA] 2002), which raises the costs of borrowing. MRBs could better achieve the policy objective of overcoming homeownership inequities if they provided deeper levels of subsidy to targeted populations. If MRBs were combined with a subsidized FHA mortgage insurance product, first-time homeownership opportunities could be significantly expanded for renters unable to afford ownership under current MRB programs. Generally the improvements are administrative issues which could be implemented under existing policies with minor legislative revisions.

Down Payment Grants

Because of the risk of borrowers' failing to make payments and thereby defaulting on a loan, mortgage lenders typically require borrowers to make a minimum cash investment, or down payment. Lenders also set limits for the total amount of debt a borrower can carry in addition to the mortgage, including credit cards and auto, personal, and student loans. Studies show that renters are most often prevented from qualifying for a mortgage by a lack of income and lack of a down payment or a high debt load (Listokin et al. 2001; Savage 1998; Englehardt and Mayer 1998).

The Community Development Block Grant (CDBG) can be used for a wide range of community needs, but approximately 30 percent is allocated to housing (Turnham et al. 2004). HOME Investment Partnerships (HOME) provide grants to local governments specifically for housing. Both programs are often used by local jurisdictions to pay for down payments or reduce the size of mortgages for low-income first-time buyers. HUD reports suggest that about

twenty thousand first-time homebuyers are assisted by the HOME program annually; CDBG numbers are unavailable but are likely to be smaller.[3] Another source of down payment assistance is the Affordable Housing Program (AHP) of the Federal Home Loan Banks (FHLB). The AHP, funded by payments in lieu of certain taxes, has a set-aside for supporting first-time homebuyers, primarily through down payment assistance grants. In 2002, over 17,500 homeowners were aided by AHP grants averaging $4,000 each (Federal Home Loan Banks 2003).

In an effort to stretch subsidies, some localities provide down payment funds in the form of a second lien loan. These revolving loan funds allow more households to receive assistance as down payment loans are repaid. The scale of these locally run programs is difficult to estimate, and in fact, in many cases, HOME and CDBG funds are the loan capital as well. Because of the hodgepodge of funding sources for down payment assistance, nonprofit organizations such as community development corporations frequently provide programs to assist first-time homebuyers in accessing those resources.

In recent years, mortgage lenders have dramatically reduced the requirement for borrowers to make cash down payments. In fact, zero down payment loans are available, even for borrowers with low incomes and relatively high debt levels. Yet down payment grants and loans remain the most widely supported mechanisms to promote homeownership among lower-income households. Grants and loans are particularly effective because they tightly target first-time homebuyers. This approach satisfies the policy rationale of overcoming the historic inequities that prevent minority and low-income households from benefiting from ownership. But grants as large as $20,000 are not uncommon or even loans of more than $50,000 (NeighborWorks 2002).

There are very few instances in which the federal government grants citizens assets in a lump sum. Many programs provide income subsidies, but outside of small-scale matched savings demonstration programs, there are few precedents of federal grants that directly increase household wealth.[4] The size of grants and loans to subsidize homeownership results in a relatively small number of households' being served. Only forty to sixty thousand families receive a grant or loan. In effect, these grants are like a lottery serving a small share of eligible borrowers. If FHA were to expand its underwriting criteria, combined with expanded subsidies through mortgage revenue bonds and below-market-priced FHA premiums, the need for down payment grants would be minimized. Then HOME, CDBG,

3. HUD IDIS database reports, http://www.hud.gov/offices/cpd/systems/idis/index.cfm. In 2002 the Bush administration proposed the American Dream down payment program, a $200 million set-aside within the HOME program to provide down payments to forty thousand first-time homebuyers.

4. Tax rebates and refunds are returns of earned income, not a direct wealth subsidy.

and AHP funds could be used to reduce home purchase prices or to subsidize the production and renovation of affordable homes. Down payment policies are politically popular but costly to the treasury. Comprehensive designs combining FHA and other program hold great promise but are difficult to coordinate across multiple agencies and funding sources.

Subsidized Loans

A small volume of substantially below–market interest rate lending is available through special programs offered by financial institutions, community-based nonprofits, and local governments. The Rural Housing Service 502 direct loan program is probably the largest program providing loans with subsidized interest rates. The 502 direct loan program offers loans with interest rates as low as 1 percent and loan terms as long as thirty-eight years, depending on the household's income and financial assets. In 1999 approximately sixteen thousand loans were funded through the RHS 502 direct loan program (Shear et al. 2003). Other subsidized loans are provided through the HOME program, Community Development Financial Institutions funds (CDFI), and Neighborhood Reinvestment Corporation. Approximately thirty thousand households are assisted by subsidized loans each year.[5] Another form of interest rate subsidy is delivered by an interest rate buy-down—essentially a payment at the time a mortgage is closed in exchange for a lower interest rate. State housing finance agencies support approximately five hundred interest rate buy-downs annually, in addition to a small number of programs administered by local authorities (NCSHA 2002). Either approach results in deeply subsidized interest rates, which reduce the monthly payment burden of a mortgage and overcome affordability barriers to owning a home.

The rationale for federal support of these programs is to overcome inequities in homeownership for underserved households. Because of the expense and limited scale of subsidized loans, this is not an appropriate strategy for expanding ownership generally. These programs can be designed to target precisely those first-time homebuyers most in need of assistance to make the transition from renting to owning.

Like down payment assistance, subsidized loans are cash subsidies which are targeted to low-income and minority first-time homebuyers. By lowering the ongoing costs of ownership, they afford underserved households access to benefits from which they were previously excluded. Loans can be targeted by locally based administrative programs to those households with the greatest needs. But like the down payment subsidies, loan subsidies are expensive. Even

5. HOME data from www.hud.gov; CDFI data from www.cdfifund.gov; Neighborhood Reinvestment from www.nw.org.

the number of Rural Housing Service 502 direct loans has been reduced dramatically in recent years, in part to reallocate resources to credit enhancements combined with more shallow subsidies. In the interest rate environment of the economy in 2003, with mortgage rates at historic low levels, the relative impact of lowered interest rates was minor. As rates rise, particularly if they return to the levels of the 1980s, the need for subsidized loans may resume (Painter and Redfearn 2002). Ideally, however, these subsidized loans would be most efficient if designed to complement existing programs, such as FHA, providing special subsidies to existing loans. In general, there is little political support for directly subsidized loan programs at the federal level, due to problems in the past and the costs of operating subsidy programs at scale.

Community Reinvestment Act

The Community Reinvestment Act (CRA) explicitly examines the record of federally insured deposit-taking institutions in meeting the credit needs of communities in which they operate, as measured by data collected under the Home Mortgage Disclosure Act (HMDA). CRA gives regulators the power to deny mergers and acquisitions on the basis of lending patterns and public comments on the institution's lending record. Banks get credit for loans made in neighborhoods or to households with incomes of less than 80 percent of the area median.

CRA and its related provisions are an example of a federal regulatory policy that helps underserved households obtain mortgages. This is justified under the rationale that federal interventions should overcome inequities in ownership opportunities. Although CRA is broadly concerned with lending and investment by financial institutions, mortgage lending is the most common and substantial relationship households have with banks. It is possible that most of the mortgages lending institutions make under CRA would be made in the absence of the law; but a regulatory recognition of the inequities present in the marketplace is warranted, given the stubborn historic gaps in access to homeownership among racial and ethnic groups. Community groups report that CRA has been useful in stimulating access to credit in underserved areas. Some studies find that enforcement of CRA has been uneven, but overall it is an incentive for lenders to seek out borrowers who otherwise would be ignored (Apgar et al. 2002).

The effectiveness of CRA is limited, however, because of its original design to balance bank deposits with lending activity. The modern mortgage market is not based on loans made directly from deposits. Mortgages are frequently made by mortgage companies funded by Wall Street with no bank branches. To be maximally effective, CRA should be extended to any mortgage-lending entity, regardless of its funding structure. After contentious revisions to CRA in the late 1990s, further changes in CRA are likely to be politically difficult.

Government-Sponsored Enterprises

Federal support, implicit or explicit, for government-sponsored enterprises, such as Ginnie Mae, Freddie Mac, Fannie Mae, and the Federal Home Loan Banks, help facilitate the efficient flow of mortgage credit to borrowers, reducing interest rates and increasing the affordability of homeownership. These secondary-market entities supply capital for more than half of all mortgage debt issued nationally. They are exempt from most state and local taxes, are excused from securities registration requirements and fees, and have conditional access to a line of credit from the U.S. Treasury. GSE's borrowing costs are lower than for other financial institutions, primarily because investors perceive a federal guarantee of their operations.

About three-quarters of FHA-backed loans are sold in the secondary market through Ginnie Mae, a government-owned and operated enterprise (Gabriel 2001). Ginnie Mae guarantees payments on mortgage-backed securities issued by FHA lenders and sold to investors. By selling loans, lenders receive cash that allows them to issue more loans. Ginnie Mae charges a guarantee fee to lenders, which generates revenue for the federal budget.

The twelve regional Federal Home Loan Banks are privately owned by their member financial institutions. The bank's Mortgage Partnership Finance (MPF) and Mortgage Partnership Program (MPP) initiatives allow member banks to pass loans on to the secondary market. The cost of the Home Loan Banks' special federally guaranteed status is estimated to be approximately $3 billion (Congressional Budget Office 2001).

Fannie Mae and Freddie Mac are congressionally chartered private companies owned by stockholders. These firms buy mortgages conforming to their standards from qualifying financial institutions. Fannie Mae and Freddie Mac guarantee $4 trillion worth of mortgages, making up a majority of the mortgage market. Because they can borrow from investors at rates near government rates, and have reduced requirements for holding capital in reserve and exemptions from certain taxes, these GSEs reduce mortgage interest rates by between one-tenth and four-tenths of a percent (Passmore, Sparks, and Ingpen 2002).[6] As of 2000, 50 percent of loan purchases by Fannie Mae and Freddie Mac were required to be for borrowers with below-median incomes, 20 percent for low-income families in low-income areas, and 31 percent for properties located in central cities or rural areas. These goals have helped encourage Fannie Mae and Freddie Mac to expand into new mortgage products with less stringent underwriting standards (Ambrose, Thibdeau, and Temkin 2002). According to the Congressional Budget Office, the cost of Fannie Mae and Freddie Mac's special status to the federal government is approximately $11 billion, although Fannie Mae and Freddie Mac argue that the figure is actually less than $5 billion (Congressional Budget Office 2001; Fannie Mae Foundation 2001).

6. Congress sets the limit for conforming loans; $325,000 was the limit established in 2002.

The role of the GSEs in federal policy is complicated. The GSEs do not directly cost taxpayers, but there is the potential for massive costs. Federal support for GSEs clearly benefits these agencies; the question is whether the value of that benefit is justified, given their impact on homeownership. GSE subsidy is unusual in that its size is determined by the market and the actions of the GSEs themselves, not by statute. It is not a targeted policy but one that supports the entire mortgage market for first-time and existing homeowners. Federal support for GSEs is most justifiable by their efforts to make ownership options possible across regions and business cycles. Thus, the positive externalities of first-time and ongoing ownership are supported. By lowering the cost of issuing mortgages, the GSEs reduce the cost of homeowning, albeit only slightly. The rationale that GSEs stabilize mortgage markets, and therefore the economy, is another possible line of reasoning. But this, however, assumes that federal support of GSEs does act to stabilize the market. Implicit federal guarantees may distort GSE and investor behavior, causing risks to be underestimated. Support for GSEs is widely debated, with frequent calls for reforms (Greenspan 2004). Any revisions in the status of GSEs, however, should reflect the most important underlying policy rationale for federal support of homeownership: enhancing first-time or ongoing homeownership opportunities. Policymakers should boost GSE goals for first-time buyers and require expanded emerging mortgage product lines for a larger share of the mortgage market. Using GSEs to further economic stabilization goals will remain a difficult strategy.

Consumer Disclosures

The Truth in Lending Act (TILA), Home Ownership and Equity Protection Act (HOEPA), and Real Estate Settlement Procedures Act (RESPA) are intended to ensure that consumers obtain standardized information and clear direction when buying a home. TILA is administered by the Federal Reserve and requires consumers to receive standard documents to make cost comparisons between loans, including the annual percentage rate (which includes the amortization of closing costs). TILA also provides consumers a three-day right of rescission for mortgage loans, and requires truthful advertising of loan terms, costs, and fees. HOEPA requires a disclosure form to accompany high-cost loans informing borrowers about costs and terms, including the fact that the home could be taken if they fail to comply.[7] HOEPA also prohibits certain prepayment penalties, balloon payments in the first five years, and negative amortization. RESPA, which is administered by HUD, requires a preclosing disclosure of costs related to pending mortgage transactions, also called a "good faith estimate." In addition to disclosures at the mortgage closing and transaction settlement, RESPA also prohibits kickbacks, referrals, and fees among brokers, lenders, appraisers, title companies, insurers, and agents.

7. HOEPA defines high-cost loans as those with rates 8 percentage points greater than treasury rates, or more than 8 percent of the loan balance in fees.

The rationale for federal regulation of the mortgage market is grounded in the need to make transactions fair for first-time and ongoing homeowners. Given the magnitude of home purchases in the average household's portfolio and the opportunities for confusion and conflict, disclosure laws help homebuyers navigate the homebuying and mortgage-borrowing process. In theory this reduces the risks of buying a home, and should encourage more renters to become homeowners.

Concerns have been mounting, however, over the behavior of so-called "predatory lenders" offering mortgages with very high rates, unfavorable terms, and unfair fees. Prohibiting predatory practices while preserving innovations among legitimate lenders is proving to be a delicate balance. Although many practices used by predatory lenders are already regulated or illegal, some states and cities have passed their own limits on loan terms. One study suggests that the tough laws passed in North Carolina have in fact reduced the most egregious practices while allowing growth in sub-prime and low-income lending generally (Quercia, Stegman, and Davis 2003). Nevertheless, having a patchwork of lending laws hampers the efficient operation of financial institutions. Because of stricter laws in some areas, mortgage markets are avoiding business in some states. Proposals have been drafted to clarify the hierarchy of federal and state regulations, creating a level national playing field for mortgage markets. But industry pressure for federal regulations to weaken successful local laws inflames consumer advocates, because they worry that federal regulations will be relatively weak. Meanwhile, there is evidence that borrowers, especially minority and low-income borrowers, are struggling to navigate the current marketplace to obtain the best pricing (Woodward 2003).

The documentation and regulations for RESPA, HOEPA, and TILA are complex. These rules could be simplified to make the process faster, more efficient, and more understandable to homeowners. But industry advocates have been unable to agree on the terms of revised regulations. Policymakers need to establish one clear and coherent set of regulations that consumers can trust to protect their best interests. Fears of predatory lending only serve to discourage homeownership and limit the numbers of households becoming or remaining homeowners. If the regulatory framework does not instill confidence in consumers, the positive externalities of homeownership for society will not be maximized. Moreover, some borrowers may enter into agreements they do not understand or that were designed to defraud them. Failed homeownership also fails to create positive externalities, can ruin a private household socially and financially, and does not serve to stabilize the economy.

Homebuyer Education and Counseling

The complement to disclosure regulations is subsidies for homebuyer education and counseling. First-time homebuyers often lack the skills and knowledge needed to purchase a home. Existing homebuyers sometimes need advice on how to finance or maintain their homes. Federal intervention on behalf of these services

is supported by the rationale that homeownership's positive externalities for the public require incentives to achieve socially optimal levels of ownership. Counseling can also be targeted to underserved populations, providing information and advice to groups historically subject to discrimination. This supports the rationale of interventions aimed at overcoming inequities in homeownership.

Federal policies seek to overcome information barriers by providing direct financial support for agencies engaged in pre-purchase homebuyer education and counseling. Interest in homebuyer education as a method of preparing families to take on the responsibilities of a mortgage and a home has increased since the early 1990s (McCarthy and Quercia 2000). Homebuyer education ranges from workbooks, to information given out on the telephone, to formalized group classes and clubs, to intensive one-on-one counseling. Services usually occur before the home is purchased, or ideally even before a family begins to search for a home. Counseling may also be provided post-purchase to help families maintain their home, refinance, or manage a mortgage delinquency. Studies suggest that counseling alters behavior. Pre-purchase homebuyer counseling and education reduce loan defaults by up to 34 percent, when other factors are controlled for (Hirad and Zorn 2002). Another study concludes that counseled borrowers have a default risk one-half that of noncounseled borrowers (Hartarska, Gonzalez-Vega, and Haab 2002).

HUD support for housing counseling, provided under Section 106, a set-aside in the HOME program, increased to $35 million in 2003. An estimated 125,000 individuals annually receive pre-purchase education though HUD-related programs. Since lenders and borrowers benefit most directly from counseling, subsidies from the federal government might seem unnecessary. Unless subsidized, however, the costs of counseling can increase the cost of buying a home, and lenders would under-provide counseling relative to the external benefits of homeownership.

In 2001 the Veterans Administration (VA) proposed requiring counseling for all borrowers using its mortgage insurance. That proposal was not well received by the real estate industry, however, because homebuyer counseling services are viewed as being uneven in quality and distribution nationally, without a standard curriculum or benchmarks for service. As homebuyer education becomes included in more home sales, policymakers will need to build the capacity of the homebuyer education delivery system. HUD's regulations prohibiting shared fees paid by borrowers, lenders, and real estate agents are outdated and are in need of revision. HUD should issue a regulatory change to make counseling an allowable closing cost payable by any party reported on HUD-1 settlement forms. This change would help promote transparency and institutionalize counseling in the homebuying process. The real estate industry, lenders, and home sellers may all object to any provisions that slow down, or add to the costs of, home sales transactions, however, unless the benefits of better-informed consumers are widely accepted.

Development Subsidies

In some places the cost of building a home suitable for homeownership entails significant costs. Acquiring land for development or an existing unit for renovation is often the most significant cost, but remediation of environmental problems, the fixed costs of permits and approvals, and code requirements can absorb much of a housing development's budget. The lower the cost of a home, the larger the share of the total development costs taken up by fixed costs and overhead. As a result, in some soft markets, especially older urban or rural communities, the cost of building or renovating affordable homes exceeds prevailing market values. Without subsidy, homes in these areas could not be built or renovated. In some markets there are relatively few affordable single-family, owner-occupied units developed each year, and this depresses homeownership rates (Collins, Crowe, and Carliner 2002).

Both the HOME and CDBG programs are used to help fund the development of affordable homes suitable for ownership. The HOME program, which tracks usage of funds, estimates that an average of 6,000 new homeownership units are built annually using the subsidy, while around 2,500 are rehabilitated (HUD 2003a). Approximately 17,000 housing units are developed annually using CDBG, although what portion are intended for homeownership versus rental is unknown.[8] These grants are generally for only a portion of the costs of development, and in most cases other subsidy programs are also involved. For example, a home might receive funding from HOME, as well as the AHP program, and then be purchased with an MRB-backed loan with FHA mortgage insurance. These programs offer local governments and nonprofits resources to create a small number of targeted housing units suitable for affordable homeownership.

The SHOP program was begun in 1996 to support nonprofit organizations to purchase home sites and develop infrastructure for use in sweat equity homebuilding—homes built by the labor of their future owners and volunteers. The SHOP program has received an increasing level of support in recent years, and provides approximately $25 million annually as a set-aside program through the CDBG program. Approximately two thousand homes were developed in 2000 through SHOP grants to five nonprofit organizations.[9] By supporting the costs of development infrastructure, SHOP grants leverage local resources and labor to produce more affordable housing. A positive by-product of self-help programs is that first-time homeowners gain skills in building and maintaining a home.

The rationale for federal support of these programs involves overcoming the inequities of homeownership for targeted populations. While they are small in scale, and expensive on a per homebuyer basis, it is important for policymakers to recognize both supply- and demand-side incentives for homeownership. Subsidies for

8. Catalog of Federal Domestic Assistance, http://www.cfda.gov.
9. http://www.hud.gov/offices/cpd/affordablehousing/programs/shop/02funding.cfm.

development help create units available for purchase by low-income households which would otherwise not be created. Because housing markets vary significantly across the country, there is an argument for keeping subsidies for the development of homes administered at the local level through block grants. Policymakers, however, should analyze the efficiency of these programs, including features that create incentives for developing larger-scale projects, as well as reducing regulatory costs and delays that make developing affordable subsidized housing difficult.

Conclusion

There are three primary reasons why the federal government is justified in using public resources for supporting homeownership. First, homeownership creates positive externalities which benefit the general public. Second, although homeownership supports private benefits for households by providing shelter and a store of wealth, access to ownership is inequitably available due to disparities by racial and economic status. Third, because residential owner-occupied housing represents a significant share of the nation's tangible assets and strongly influences key industries and capital markets, attempts by government to support homeownership may impact the stability of the overall economy.

Each rationale suggests different targets of policy interventions. To the extent that ownership creates positive externalities for the general public, without incentives fewer households than would otherwise be socially optimal will convert from renting to owning. Inequities in homeownership suggest strategies targeted to specific population groups underserved in the current marketplace. Stabilizing the housing and mortgage finance industry suggests policies aimed at the level of institutions and firms. Policies based on each of these rationales can be implemented by using four mechanisms, including (1) income and asset subsidies, (2) credit enhancements, (3) regulations, and (4) public awareness.

A review of ten existing homeownership programs reveals the many policies that impact consumers and firms in the marketplace. The largest existing federal policy supporting homeownership is the personal income tax deductibility of mortgage interest. But despite its size, this policy is poorly targeted, and its specific impact on the choice to buy a home is ambiguous. Tax-exempt financing of mortgage revenue bonds is a powerful policy tool, but many buyers still need deeper interest rate subsidies than typically can be offered by mortgage revenue bonds. Thus, the effect of this policy on the marginal potential homebuyer could be improved. FHA mortgage insurance continues to be a important development in homeownership policy. FHA's role in a marketplace dominated by risk-based pricing is uncertain however, as borrowers today have many alternatives to FHA loans. FHA is exploring creating new loan products, but policymakers are likely to insist that FHA maintain insurance premiums sufficient to generate a surplus for the federal budget. As a result, FHA will not provide the subsidies needed by

households currently excluded from ownership. The impact of federal policies supporting the expansion of access to credit, such as the Community Reinvestment Act, should not be underestimated. To the extent that these laws affect the behavior of lenders, generations of borrowers historically blocked from the mortgage market now have opportunities to become homeowners for the first time. Regulations regarding consumer protection and disclosure provide needed transparency and accountability to homeownership transactions. These laws are crucial for maintaining an efficient marketplace with informed consumers. Efforts to create clearer and more easily understood documents should be enhanced. Likewise, efforts to educate consumers are also important to help families accurately assess the risks and benefits of owning a home and taking on mortgage debt.

Homeownership is politically popular and has long been part of the rhetoric, though rarely the substance, of housing policy. Beyond using the bully pulpit, however, policymakers need to review existing programs and new proposals with the goal of advancing federal programs and policies that help promote homeownership. Of the three rationales for federal homeownership polices, expanding access to homebuying for underserved populations is among the most compelling and least supported in terms of federal resources. In particular, to the extent that low-income families find homeownership unaffordable or minorities confront barriers to ownership, policymakers should concentrate on programs that support homebuying for these populations.

Policymakers should understand the risks and implications of expanding homeownership. Unlike households in the rental housing market, homeowners must be able to maintain their home successfully and pay their mortgage. When families fail at homeownership, entire neighborhoods can be affected, in addition to the substantial losses individual households must endure. Financial literacy counseling as well as home repair, energy efficiency, and weatherization policies are important to support the preservation of homeownership. Likewise, accessibility improvements and improved coordination between health care and housing will be required as more members of the "baby boom" generation grow older and desire to remain in their homes. The role of policy in promoting first-time homeownership will need to be balanced with strategies designed to preserve homeownership for households over time.

5

Is Housing Tenure the New Neighborhood Dividing Line?

The Polarizing Politics of Homeownership

EDWARD G. GOETZ

Homeownership as a public policy objective enjoys enormous support from virtually all sectors of American society. Nicolas Retsinas and Eric Belsky, otherwise sober-minded social scientists, invoke motherhood, apple pie, and Beaver Cleaver to place homeownership correctly in the social, psychological, and political landscape of America (Retsinas and Belsky 2002a). Homeownership is often referred to as the American Dream, a sentiment "embedded in the American heart," according to President Herbert Hoover more than seventy years ago (Jackson 1985, 193). With backing from across the political spectrum, national and local politicians continue to pledge their support for policies promoting homeownership. Homeownership has been enlisted in the cause of national economic recovery (Radford 2000), the fight against communism, the desire to expand the middle class (Checkoway 1986), and the effort to revitalize America's central-city neighborhoods (HUD 1996a).

In this chapter I examine aspects of the last of these claims: the role of homeownership in the politics of neighborhood revitalization. The positive public image of homeownership has been powerful in neighborhood revitalization politics shaped since the late 1980s by concern about concentrated urban poverty and violent crime. This is especially the case in the Twin Cities of Minneapolis and Saint Paul, which provide the context for the discussion of the neighborhood politics of homeownership in this chapter. Drawing on previous research conducted by the author and by other scholars, I argue that the framing issues of crime and concentrated poverty interact with common public perceptions of homeownership and rental housing in inner-city neighborhoods in ways that have fundamentally altered community development politics.

Crime, Concentrated Poverty, and the "New" Community Development

For the better part of three decades, from the 1960s through most of the 1980s, community development in urban neighborhoods consisted of a range of initiatives targeted at improving living conditions for the low-income residents of declining neighborhoods. These initiatives included the provision of social services for families that required them, the provision of housing affordable to people with low incomes, and other activities aimed at asset building to improve the quality of life in lower-income neighborhoods (see, e.g., Ferguson and Dickens 1999; Green and Haines 2002). This approach, which clearly identified the low-income residents of disadvantaged neighborhoods as the target of public policy, can be referred to as the "traditional community development" model.

The traditional approach was aimed at increasing the participation of the poor in programs created on their behalf; empowering the poor through leadership development; stabilizing lives through affordable, subsidized housing; making social services (including subsidized health and medical services) available; improving human capital among low-income residents through educational and job training programs; and enhancing community, recreation, and park facilities in declining neighborhoods.

Since the late 1980s, two developments have presented a challenge to the traditional model of community development. The first is the crack cocaine problem, which started in American cities in the mid-1980s and peaked in the early 1990s. This phenomenon, and the gang activity and violent crime that it spawned, generated a policy response that conflated the anti-crime issue with community development. Faced with rising rates of violent crime, drug use, and gang activity, low-income neighborhoods became the testing grounds for a variety of top-down crime prevention strategies (often misleadingly called community-based crime prevention; see Buerger 1994). Neighborhoods took to installing surveillance cameras and listening devices (Egan 1996; Fyfe and Bannister 1994), and block club organizing became little more than crime prevention organizing (Goetz 1996, 2003). The federal Weed and Seed program combined criminal justice and community development in a formal effort. Some communities groups organized "forfeiture coalitions" to try to gain a portion of the drug assets seized by law enforcement agencies in the drug war (see, e.g., Baron 1990). These residents, virtually always in poor neighborhoods, were in the position of choosing between reduced civil freedoms or continued carnage in their communities.

Residents began to organize against one another. "Neighborhood watch" programs institutionalized mutual surveillance. Neighborhood groups adopted their own surveillance techniques, sometimes following national models such as the

"Wrice Process" for targeting suspicious activities.[1] Citizen police academies were begun in cities across the country, and police departments busied themselves with block club organizing to increase the number of "eyes and ears" watching the neighborhood.

Organized community crime prevention and participation in criminal justice campaigns directed by the police typically attract only a small fraction of residents, and these residents are frequently property owners in mixed neighborhoods, and are usually white. Under these circumstances, the targets of community crime prevention are typically renters, and lower-income residents. As a result, community-based anti-crime efforts often pit "respectable" neighborhood residents against the neighborhood's "bad elements" (Skogan 1990; Buerger 1994; Garofalo and McLeod 1989).

During the same period, the issue of concentrated poverty was being identified by national officials as the nation's most pressing domestic challenge (see Cisneros 1995). Locally in the Twin Cities of Minneapolis and Saint Paul, a state legislator from a south Minneapolis district was calling for an end to traditional community development efforts in core neighborhoods and a more regional approach to revitalization. State senator Myron Orfield was convinced that traditional community development approaches were inadequate at best, and at their worst were outright failures and even counterproductive. Orfield's message was that core neighborhoods should do nothing more that would attract or retain low-income residents. Other jurisdictions within the region needed to show responsibility for addressing the region's poverty. Specifically, he argued:

> In central cities such as Minneapolis–Saint Paul, a large part of community development consists of repairing or adding additional low-income units in the poorest part of the city and regional economy. In a fragmented region, where poor residents are undeniably the sole responsibility of older communities, this is humane and necessary. The buildings are blighted and people need places to live. However, in a regional context, by centering affordable housing in the most desperate neighborhoods, it moves against the grain of a long-term strategy to establish access to opportunity for people and stability for core communities. After twenty years, even the largest and most successful Community Development Corporation (CDC) initiatives in the country have not changed the basic downward spiral of poor, segregated neighborhoods. (Orfield 1997, 77).

1. Named after a volunteer anti-crime organizer in Philadelphia, the Wrice Process is based on direct confrontation with drug dealers and users incorporating chanting mobs of residents involved in street marches, vigils, and even the wearing of uniforms. The practice spread to other cities in the early 1990s and endured throughout the decade.

Concerns about crime and concentrated poverty have helped to reshape neighborhood revitalization politics. In this new policy environment, tenure divisions are a prominent fault line in neighborhood politics. Programs in support of lower-income tenants are suspected of serving the purpose of further attracting poor residents to neighborhoods that already have too many. This policy discourse leads to a call for greater "diversity" in core neighborhoods, by which is meant that the neighborhood needs a larger middle class. The call for greater diversity in low-income neighborhoods is connected to a call for more homeownership. Renters, who typically have lower incomes than property owners, who generally participate less in block club or neighborhood organizing or in community crime prevention activities, and who are more likely to be people of color, can in this environment be identified as a "problem" to be solved before the neighborhood can revitalize.

Because of the perceived neighborhood and wealth-generating benefits of homeownership, programs that are intended to shift low-income families into ownership are not seen as "low-income housing" programs. Thus, they are not criticized for anchoring the poor to core neighborhoods. The ultimate result of these perceptions and the framing issues of crime and concentrated poverty is a reorientation of subsidies and resources away from assisted rental housing to homeownership opportunities for both low-income families and middle-income households.

This constituted a thorough rethinking of housing policy in the core. The affordable housing efforts of CDCs began to be questioned by neighborhood activists and local officials who had determined that their own communities had done more than their fair share and should do no more until the suburbs opened up. Neighborhood activists and local politicians in some areas decided that they had too much rental housing. By the early 1990s the new consensus among council members and neighborhood activists in both cities was that more homeownership opportunities were needed in central-city neighborhoods.

In the next section I examine the three perceptual bases for the housing tenure divide in neighborhood politics: (1) the record of homeownership as a means of generating wealth for individual households and the role of neighborhood contextual factors in generating that wealth; (2) the issue of the benefits to neighborhoods of homeownership; and (3) (in many ways the flip-side of the second point) the stigmatization of renter households and the creation of divisions within communities based on tenure.

In addition I examine, as a consequence of the three perceptual factors, the shifting of resources away from assisted rental housing to ownership, and the often accompanying shift of resources away from lower-income families to moderate-income families.

Wealth Generation

When homeownership assistance for low-income families is examined as a means of wealth generation, it is a form of "people-based," as opposed to "place-based," anti-poverty policy. The objective is to provide lower-income families with the means to accumulate equity over time, and to pass along housing wealth to future generations. Relevant here, for example, are the figures that show significant differentials in homeownership between whites and blacks in the United States, and tremendous differences in wealth across these two groups that result as a consequence of different homeownership rates (see chapters 1 and 4 in this volume). Homeownership among blacks runs more than 20 percentage points behind the rate for white families (Rusk 1999). Yet the location of the homes owned by blacks contributes to an even greater home equity gap between white and black homeowners. Although ownership rates among blacks is about two-thirds that of whites, their home equity runs far less than one-third that of whites on average, and the rate of equity appreciation for whites during the 1980s and early 1990s was 68 percent greater than for blacks (Oliver and Shapiro 1997). As Rusk points out (1999, 93), even "white high school dropouts typically have greater home equity than black professionals." This equity gap is a de facto "segregation tax," the result of the fact that most black homeowners live in segregated black neighborhoods and/or in older, more disadvantaged urban neighborhoods. Furthermore, there is evidence that this trend has been increasing, with blacks becoming more likely to buy in predominantly minority neighborhoods over the course of the 1990s (Immergluck 1998). Thus, the neighborhood context in which homeownership takes place is critical. The counterargument to the claim that homeownership can increase wealth accumulation among low-income families suggests that ownership in disadvantaged neighborhoods can be very risky. Depreciation of housing values can occur as easily as appreciation (Baker and Baribeau 2003; Case and Marynchenko 2002). Far from being a vehicle for accumulating greater wealth over time, ownership in poor urban neighborhoods may represent a drain on low-income families. In neighborhoods with stagnant or depreciating values, ownership can anchor a family in the neighborhood when the house value plummets below the level of investment made by the family. The family may not wish to sell at a loss, or may not be able to find willing buyers. In those circumstances, sellers often rent out their home so that they may move. Low-income families are more likely to remain in the house.

Recent research has shown mixed outcomes regarding the wealth-generating capacity of homeownership among low-income households. For example, Belsky and Duda (2002) argue that the risk of large losses from home value depreciation is greatest among higher-income owners. This is because buyers of low-cost homes are more likely to purchase during market downturns (when homes become more affordable). Case and Marynchenko (2002, 255) find a great deal of variation in

asset appreciation across metropolitan areas and across time periods, suggesting that it is impossible to "conclude that homeownership for low-income households is in general a good or bad strategy for accumulating wealth." The Center for Economic and Policy Research, however, warned that low- and moderate-income homeownership programs may be dangerous, given what its report called the "speculative bubble" that characterized the home-buying market (Baker and Baribeau 2003).

Home prices in Minneapolis have followed the national trend. Although generating wealth was not often cited as a reason for pursuing low-income homeownership in the region prior to 1995, the real estate boom of the late 1990s changed that. Between June 1999 and July 2000, the median sales price of homes in the Twin Cities set record highs six times (Gendler 2000). At first these price and value changes were seen only in the more traditionally attractive neighborhoods in the city. But as those micro-markets tightened up, the price increases and quick market times began to spread into the city's core neighborhoods. On the city's north side, the median price rose from less than $30,000 in 1994 (the lowest in the city) to $85,000 in 1999, a 185 percent increase in five years (Brandt 2000). In fact, the north side of Minneapolis recorded the seventh-largest percentage increase in home prices out of thirty-four districts in the entire western metropolitan area (the most prosperous in the entire region). Four of the six districts where increases exceeded those on the north side were also areas within Minneapolis.

In this environment, homeownership advocates are more likely to talk about wealth generation as a justification for ownership policy. Ironically, however, if the argument of Baker and Baribeau (2003) holds and this period turns out to have constituted a speculative bubble about to burst, the use of wealth generation as a justification for low-income homeownership may immediately precede a period in which the opposite occurs for many poorer families.

The impact of homeownership on the wealth of families able to achieve it, however, is rarely the stuff of neighborhood politics. Instead, political divisions within neighborhoods are much more likely to reflect the perceived implications of tenure for neighborhood vitality. This set of concerns is shaped by an almost universal assumption that neighborhoods with higher rates of homeownership are better off than those with lower rates.

The Benefits of Homeownership for Neighborhoods

The support among local activists and politicians for homeownership stems not so much from the wealth benefits it bestows upon families as from its purported benefits to neighborhoods. As one Minneapolis community developer put it, "Owner-occupied housing has to be a goal for what we do, because we feel strongly that it is a stabilizing influence" (Goetz and Sidney 1994a, 50).

Somewhat paradoxically, the neighborhood benefits that are claimed to result from homeownership derive primarily from what are perceived to be the characteristics of individuals who own homes. That is, homeownership is good for the neighborhood, according to the argument, because homeowners themselves are seen as more stable residents than non-owners, as having a greater stake in the community, and as being more willing to participate in voluntary organizations to serve the community. There is considerable support, of course, for the contention that homeowners are more stable residents and have more resources than do renters (see Rohe, Van Zandt, and McCarthy 2000). These higher-income, more highly educated residents are exactly the ones being sought by activists who feel that their own neighborhoods have too many low-income (renter) families.

Additionally, however, there is the sense among neighborhood activists that becoming a homeowner will increase one's resources and one's stake in the neighborhood, therefore creating greater assets for the neighborhood as a whole. That is, the act of homebuying is seen as transformative, changing not just one's tenure but also a range of individual characteristics. One community organizer from a south Minneapolis neighborhood said that his organization was working to "move renters into homeownership. Why? Neighborhood stabilization. [Homeownership] builds commitment to the neighborhood, commitment to the schools, the parks, even picking up the trash in the neighborhood. Homeowners will live in the neighborhood longer, and they will care about what goes on there" (author interview, October 27, 2003). According to another Twin Cities community activist who became a real estate agent: "I've seen ownership change people's lives. Once someone makes the decision to try to buy a house, they find themselves putting their lives in order: preparing a budget, saving money, reducing debt, paying bills on time, perhaps even reconciling with estranged parents who could help with a downpayment" (Share 1993, 4).

The sense that a home purchase is a dual investment (in a particular property and in the neighborhood in which it is located) is widespread among community activists. The neighborhood investment that owners make is often referred to as their "stake" in the neighborhood. Homeowners are seen as a having a stake in neighborhood outcomes that renters do not. According to one neighborhood activist: "Renters in the inner city generally regard their living as a temporary situation. . . . It is that attitude that 'this is only temporary, I'm going to leave' that means you don't get a person who's committed to doing something to improve the quality of life in that neighborhood" (Goetz and Sidney 1994c, 325).

Because homeowners have a greater stake in the community, because they are less likely to be transient, and because they can be expected to take better care of their properties and the neighborhood in general, homeownership itself becomes a revitalization strategy. Interviews with CDC directors and neighborhood activists in the early 1990s revealed widespread support for increased homeownership opportunities as a way of improving neighborhoods. When asked what

his neighborhood needed most, the director of one Minneapolis CDC said: "We need opportunities for single-family homeownership. We have one of the highest concentrations of low-income housing . . . or actually the highest concentration of low-income housing, even though we need to preserve low-income housing and make sure that families can live, not like rats in a cage, but more so as families should live" (Goetz and Sidney 1994a, 50).

Homeownership also constitutes a revitalization strategy, according to neighborhood activists, because it implies the presence of higher-income residents. The working assumption is that homeownership means at least middle-income, and perhaps even higher-income, families. Said another CDC director: "We need opportunities for homeownership. . . . It comes down to, in order to revitalize what has deteriorated, there just simply plain old needs to be a mix of economic strategies. So there needs to be a substantial proportion of ownership and folks with economic resources to build that home base" (Goetz and Sidney 1994a, 51).

Housing tenure, then, is a strategic component of revitalization plans. But it is also, even more than race, frequently the characteristic that separates those who promote the "new community development" approaches from those who cling to the old model. Since the early 1990s, property owners have advocated for a new set of policies to revitalize the central neighborhoods of the Twin Cities. For example, plans by the city of Minneapolis to demolish over seven hundred units of public housing in the mid-1990s were criticized by tenant groups as constituting a clear attempt to gentrify the city's near north side. Homeowners living in the surrounding neighborhoods, however, criticized the revitalization plan because it called for too much low-cost rental housing to be replaced on the site (Goetz 2003). Similarly, property-owning residents of two south side core neighborhoods in Minneapolis won election to their respective neighborhood group boards and fundamentally reoriented the groups away from favoring low-cost rental housing and supportive services and toward the promotion of homeownership (Goetz and Sidney 1994c). Other community organizations, dominated by property owners even though their neighborhoods are overwhelmingly rental, imposed moratoriums on multifamily housing projects by their neighborhood-based CDCs (Goetz and Sidney 1997). In each of these cases, the core debate was the wisdom of continuing to subsidize housing and social services for lower-income tenants in core neighborhoods, compared to promoting homeownership as a means of improving the housing stock, stabilizing the community, and introducing more income diversity into the neighborhood.

Stigmatizing Renters

The flip side of support for homeownership has been the greater stigmatization of tenants and rental housing. For each benefit attributed to homeownership, neighborhood activists and local officials have frequently ascribed negative traits

to tenants. Thus, the terms of the debate are not simply that renters are less stable than owners but that renters are unstable, transient, and apt to contribute to instability in the neighborhood. Alternatively, it is not that renters simply have less of a stake in the community compared to owners but that they are referred to as having no stake. It is not that they are less careful about taking care of their property than owners, it is argued, but that they do not, in fact, take care of it. One Minneapolis neighborhood activist, when talking about a neighborhood organization that had recently elected a slate of property owners to its board, said, "I feel the board, the people who are invested in the neighborhood, who have a different vision for the neighborhood, should try to steer it in a healthier direction, in a more economically balanced and vital kind of way, to help everybody in the end" (Goetz and Sidney 1994b, 12). Another activist, speaking about the same group, argued that the old regime had favored "social programs leaning toward renters rather than toward homeowners and stakeholders" (Goetz and Sidney 1994b, 12). Another neighborhood leader said, when asked what the priorities were for her community:

> We continue to be almost appalled as far as the blight of the neighborhood and the very high rental [housing]. In one portion of [the neighborhood], we've got 73 percent rental, and I think in another area, we're looking at 50 or 60 percent. And so we're very concerned about that impact on the part of the neighborhood that is still stable, and how we encourage those people that are homeowners to stay, and how we turn the rental around or turn it into homeownership, so we can encourage people to come into our neighborhoods and make an investment. (Goetz and Sidney 1994a, 52).

In a similar way, if homeownership is equated with neighborhood revitalization, rental housing thus becomes associated with neighborhood decline. One neighborhood organization official reported: "Some of the [our] board members have felt that this community has become saturated with low-income housing, so they're not as open to it as they were probably ten years ago. . . . It is a lack of homeownership that makes people nervous, because when you have such high rental property rates, then people don't have any ownership, and the properties go awry" (Goetz and Sidney 1994a, 52).

Negative feelings about renters and rental housing are often associated with the perceived problems of crime and concentrated poverty. A Saint Paul neighborhood group released the findings of its community survey and summarized "the likes and dislikes" of neighborhood respondents. The flyer read:

> Things residents don't like about their neighborhood: crime and disorder, renters, other housing problems, social characteristics and poor aesthetics. . . . Many cited problems with rental properties. Twenty percent of residents surveyed said renters

> were one of the things they disliked about their neighborhood. . . . Over seventy percent of residents surveyed said the appearance of apartment buildings in their neighborhood was fair or poor. (East Side Neighborhood Development Corporation flyer, 1995)

Thus, renters are ranked with crime, disorder, and other housing problems as the most objectionable elements in this central-city neighborhood. In fact, it might be argued that when compared to race or class, housing tenure, which clearly overlaps racial and class categories, is a social division that residents are more comfortable using as a basis for expressing their neighborhood-centered interests. The race-class divide has turned into the race-class-tenure divide.

Shifting Resources from Rental Housing to Homeownership

Tenure is increasingly the substance of neighborhood-based politics in Minneapolis and Saint Paul. During the 1990s the city of Minneapolis initiated its Neighborhood Revitalization Program (NRP), a community-based planning program devolving authority for millions of dollars in expenditures to neighborhood planning groups (Martin and Pentel 2002). Some neighborhood organizations became the locus of struggles between factions interested in community development as traditionally defined, versus a pro-homeowner faction that wanted to dismantle the dependency policy of community development and replace it with one that supported greater homeownership (Goetz and Sidney 1994b).

NRP attracted more homeowners and higher-income residents to neighborhood planning efforts across the city, even in neighborhoods dominated by rental housing. Community plans began to reflect the interests of these residents, interests that were more likely to focus on supporting ownership and reducing the emphasis on services to renters and low-income residents. Plans that had been formulated previously and did not reflect this new understanding of neighborhood problems were changed (Goetz and Sidney 1994c). Neighborhood activists were much more likely in this environment to see previous community development efforts as a narrow, social service approach, not necessarily in the best interests of the neighborhood at large. CDC directors felt that their previous work in the neighborhood was being discounted, even criticized, and they complained of being pushed aside by newcomers. As one neighborhood developer said, "It's as if community development didn't exist before NRP" (Goetz and Sidney 1994a, 49). Over the first ten years of the NRP, neighborhood groups in the city "directed the largest amount of available NRP resources to housing, primarily to owner occupants" (Martin and Pentel 2002, 442).

> Properties with absentee landlords were often identified as havens for drug and other criminal activities, and some neighborhoods used the NRP process to justify an attack on rental property. A recurring theme was the reconversion of subdivided rental housing back into single-family homes that could be sold to private owners. Even the poorest and densest parts of the city . . . tilted toward increased home ownership. For example, Stevens Square/Loring Park, a near-downtown area with over 90% multifamily housing, called for 'a stable community encouraged by increasing ownership in the community' . . . by assisting in the conversion of rental apartments into coops or condominiums. (Martin and Pentel, 2002, 442)

Shifting City Programs to Homeownership

Responding to the new environment for community development, city officials attempted to redirect housing rehabilitation programs spatially and shift emphasis from rental to ownership housing. In Saint Paul, city officials and neighborhood activists wrestled with the same issues as their counterparts in Minneapolis. The city council actually discussed a resolution to move the city toward a 70–30 split between homeowners and renters. Advocates pointed out that such a move would have required massive conversion of rental housing to ownership (the city was at just over 50 percent ownership at the time) and was as impractical as it was misguided. The city did move to tear down two large multifamily buildings during the 1990s. In each case the housing was replaced with more mixed-income town homes. City officials acknowledged the "short term pain" that the low-income tenants would experience, but argued that deconcentrating poverty and stabilizing the neighborhoods were the more pressing policy objectives (see Goetz 2003). The Community Stabilization Project (CSP), an advocacy group for low-income (primarily renter) households which has been the primary advocate for rental housing in Saint Paul, organized the tenants at the two apartment buildings to oppose the demolition. In the end, both buildings were torn down.

CSP continues its advocacy for rental housing, monitoring the city's Community Development Block Grant (CDBG) expenditures related to housing. The organization opposes the heavy emphasis on homeownership assistance in the city's block grant program. Caty Royce of CSP said:

> We have looked at the last three years of CDBG spending and it is almost exclusively homeownership assistance. So we'll [examine] the demographics of that. What is the race of homeowners in the city? What is their income? And we'll be able to show where these benefits are going. We will also play up the racial component. This is a fair housing issue and that's how it will play out. This is part of the almost virtual reliance on homeownership in the city. We will ask [the city] to reverse it, that may be seen as an extreme position, but we'll ask that CDBG do 90 percent rental housing. (Author interview, 2001)

Royce said that the group would also fight to get the city to initiate a rental assistance loan program to replace CDBG funds that used to go to the county's emergency assistance program.

For their part, CDCs in Saint Paul have historically directed most of their efforts at homeownership (Goetz and Sidney 1994a). Tenant activists like CSP argue that the CDCs buy up problem rental properties and typically convert them into ownership units. CSP acknowledges the probability of a political rift between tenant advocates in Saint Paul and the CDCs (backed by neighborhood groups) that are doing primarily rehabilitation for homeownership.

In Minneapolis in the early 1990s the city adjusted the rating criteria for potential tax credit housing projects to favor developments outside the "impacted" core neighborhoods, and the city's main housing rehabilitation fund was targeted to "non-impacted neighborhoods." For Minneapolis CDCs (which historically had done most of their work in rental housing), the eligible neighborhoods were often outside their service areas, and the new criteria meant that the purchase of potential buildings or sites became more expensive. The head of the city's multifamily housing division was fired, and the entire division was folded into the single-family unit. The new and larger unit targeted virtually all of its efforts toward ownership assistance. By the mid-1990s the city's Community Development Agency had "shifted virtually all funds for multifamily housing away from new development and [had] limited its involvement in multifamily housing to the financial stabilization of existing projects" (Goetz and Sidney 1997, 506).

In 1993 the city's Comprehensive Housing Assistance Strategy named homeownership the number one housing affordability goal and called it "a major tool to enhance neighborhood stabilization" (Anderson 1993, 1). One city council member explained the shift in emphasis, saying: "My ward is one that has seen some increased stressors in the last ten years since I've been in office. Poverty and crime in the north has pushed its way into the neighborhood and we're seeing some real uncertainty as far as stability goes in the neighborhood. There is a high rental rate. . . . We need some more homeownership" (Goetz and Sidney 1997, 506).

This shift in orientation among grassroots activists in the neighborhood and city officials running housing assistance programs caught most community development organizations by surprise. "I don't know how it got construed that nonprofit developers are the enemy," said one former CDC director in Minneapolis, "when they have been the primary source of revitalization activity over the last ten years, and should be an even greater player" (Goetz and Sidney 1994a, 60). The CDCs had been focusing on rental housing for more than a decade, generally with the support of residents, or at least the tacit approval of the local neighborhood group. As support for multifamily development dried up, a number of CDCs had to reorient their development approaches and begin to focus on homeownership. Others sharply reduced their development activity, trying to survive on the trickle of multifamily projects they could still successfully market to local funders.

Several leaders of the CDC movement in Minneapolis, along with other advocates for low-income housing in the city, met together over several months from 1996 to 1997, calling themselves the Multifamily Housing Task Force. This group, attempting to address the loss of political support for rental housing assistance, put together a series of recommendations for directing more resources back toward the city's multifamily stock in core neighborhoods. They pressured the city council to adopt their goals and got one council member, Jim Niland, to sponsor a proposed ordinance to carry out the recommendations. The full city council, however, was unwilling to sign on to a return to the conventional community development approach. Instead, the council passed an amended version of Niland's bill that created a task force to discuss the city's affordable housing approach.

The task force was headed by then University of Minnesota law professor John Powell, who had been speaking throughout the community against the dangers of concentrated poverty. The task force itself, however, had a number of low-income housing advocates on it, and it became the focal point for a debate about how best to orient affordable housing resources. One faction of the task force favored advocating for a more regional approach to affordable housing (and thus deconcentrating poverty) combined with encouraging a mix of incomes and more homeownership in core neighborhoods. A second faction favored devoting resources to the aging multifamily housing stock in the city's declining neighborhoods and targeting support to low-income households.

In the end, the task force made a series of recommendations in 1998 that carefully attempted to please both camps. While acknowledging the need for a regional approach to affordable housing, the task force called for creating a dedicated source of revenue for rehabilitation of the city's multifamily housing. As a result, the city council ultimately reserved $4 million for low-cost housing each year from 2002 through 2005. In February 2003, however, the city's NRP governing board (which included neighborhood representatives and officials from several other local governments including the county, and from the school district) voted to shift $2 million of the total into mortgage guarantees for lower-income homebuyers. A county commissioner who was also an NRP board member said of the move: "In the areas I represent, they don't want any more affordable housing. . . . They want home ownership" (Brandt 2003, B3). A month later the city council voted against the NRP board's motion and restored the money for low-cost rental housing assistance.

Conclusion

A pro-homeownership agenda for central-city neighborhoods presents a complex set of policy considerations. The demographics of homeownership are clear: owner-occupants are higher income, do not move as frequently, and tend to participate in community affairs more frequently than renters. These are personal

attributes that would well serve the typical declining central-city neighborhood. Furthermore, to the extent that higher rates of owner occupation would result in better maintenance and upkeep, then city governments might experience increased property tax revenues and/or decreased public service costs.

It is just as clear, however, that a homeownership agenda cannot replace or substitute for the traditional community development approach. Homeownership as a means of inducing neighborhood improvement must be pursued along with measures aimed at maintaining and improving the rental housing stock, as well as measures that provide decent, safe, and affordable housing for people of limited means. To replace the traditional community development approach with a homeownership-based approach is, in fact, untenable. That is, shifting community development away from supportive housing and services for lower-income residents will, in the end, be unlikely to produce the type of neighborhood regeneration that its advocates suggest. This is so for at least two reasons. First, ignoring the needs of low-income families does not make them (or their needs) disappear. They are unlikely to be welcomed into other communities. Although the new community development paradigm suggests that middle-income neighborhoods and the suburbs should do more to accommodate low-income families, this is simply not likely to occur. There is no successful precedent for it, nor are current efforts to disperse low-income families throughout metropolitan areas likely to have much of an impact (Goetz 2003). Low-income families will continue to reside in the least expensive housing, and that is typically located in the very neighborhoods that want to see a shift toward homeownership. Families unable to become homeowners require a stock of affordable rental housing that will need continued investment by local governments. Shifting public investment from low-cost rental housing to homeownership simply puts more pressure on the low-end stock, resulting in greater crowding of poor families into a shrinking supply of units.

Second, most central-city neighborhoods in decline have a substantial amount of multifamily rental housing. Inducements to middle-income homeowners are unlikely to be effective if the nearby rental housing stock is neglected. Middle-income families with choice in the housing market are unlikely to choose neighborhoods in which the multifamily housing stock has been neglected. Shifting public investments away from the rental housing stock is a form of self-imposed municipal redlining that is likely to have adverse impacts on core neighborhoods.

Thus, the question that remains is a political one: whether a homeownership policy agenda can be introduced in core urban neighborhoods without triggering the kind of political dynamics described in this chapter. The substance of neighborhood politics is fairly fluid. Issues and coalitions change as neighborhood conditions are affected by larger trends and by changing definitions of problems (Goetz and Sidney 1997). Yet despite this fluidity on the details of neighborhood

politics, there are some characteristics of the political landscape that are more or less constant—characteristics that at the very least set the context for the issues of the day, and more frequently help to define those issues. Race and class have always been two of the most important of these. Increasingly, in the Minneapolis–Saint Paul case considered here, housing tenure, a factor that heavily overlaps the first two, is becoming a third important subtext for local politics.

Local officials and neighborhood activists, concerned about rising crime and the problem of concentrated central-city poverty, identified a new community development strategy during the 1990s. This strategy emphasized, among other things, increasing homeownership in the cities' core neighborhoods. When combined with the volatile issues of crime and poverty, housing tenure became a flash point in many neighborhoods. Rental housing, and the people who inhabited it, became problems to be avoided for many neighborhood groups, their leaders, and local officials. Community development politics came to focus on the relative emphasis to be given to ownership versus rental housing. Neighborhood factions, and the factions in a range of local community development politics in both Minneapolis and Saint Paul, were defined by one's place in the housing tenure debate.

Homeownership, enjoying as it does almost universal approval among citizens and officials at all levels, occupies a place of virtually unquestioned priority in neighborhood politics. In contrast, and somewhat as a result, rental housing and renters became identified with neighborhood decline and social pathology. Assistance to renters and to rental housing was defined as counterproductive in the effort to revitalize the cities and their neighborhoods. The extent to which these perceptions persist will play a central role in determining whether housing tenure will become a permanent fault line in America's urban politics.

PART III

Design and Planning Perspectives

Any serious discussion of affordable housing in general, and affordable homeownership in particular, must recognize the importance of both the design of individual houses and their placement in the larger neighborhood. Experience has taught us that the design of affordable homes has important impacts on their costs and on their acceptance by the occupants and by the residents of surrounding communities.

Clearly, the design of affordable housing units influences their production costs and hence their costs to the homebuyer. Efficient use of materials or construction techniques can substantially reduce the cost of homes and make them more available to lower-income families. Equally if not more important, however, is the extent to which affordable house designs support the needs and aspirations of their occupants. The design of affordable homes can reinforce either a sense of pride and achievement or a sense of failure and defeat. The design of affordable units also affects the degree to which they are accepted in the community or rejected as eyesores. Ultimately, the design of affordable housing impacts the political support for programs to encourage it.

This section contains two chapters that explore the importance of design in affordable housing initiatives and offer recommendations for improvement. In the first, Charles Bohl traces the evolution of affordable housing design in the United States. He recounts how the confluence of modernist design principles and political pressure from the private development industry resulted in barracks-style and "tower-in-the-park" developments that emphasized frugality over residents' quality of life and their integration into existing neighborhoods. He shows how the cost-saving mentality proved to be very costly in the end, as developments incubated crime and other social problems and had to be torn down. Bohl presents a compelling case for the importance of good design and offers several examples.

He also urges us to think beyond the design of individual homes to consider how those homes are integrated into mixed-income, mixed-use, and mixed-tenure neighborhoods.

In the second chapter, Avi Friedman argues that flexibility is a key element of good affordable housing design. Flexibility is important for several reasons. First, it allows buyers to select a home that fits their budget. Second, it allows them to customize their home to suit their needs and lifestyle, just as high-income purchasers do. Third, it allows for individualization of exterior façades to avoid the monotony of cookie cutter developments. Friedman provides a history of small home design and presents a description of a modular home system, called the Next Home, which offers buyers an opportunity to customize their homes according to both their budgets and their lifestyles.

Together these two chapters effectively demonstrate the importance of good design in affordable housing programs and provide new ideas on how to achieve that goal.

6

Affordable Housing Design for Place Making and Community Building

CHARLES C. BOHL

Home, address, street, neighborhood, place. These are terms that have too often been missing from historical efforts to create affordable housing, where the more common terminology concerned unit production, economies of scale, and "innovative" design, with the simplicity of "home" lost in a maze of programs, policies, rules, and codes. This chapter opens with a look back at the planning and design of affordable housing during the past century and highlights the growing disconnection between the production of affordable housing and the practice of place making and community building. Examples are presented to show how place making can blend a variety of subsidized and market-rate housing together seamlessly, and create neighborhoods where home values have the best chance of appreciating over time—building equity for homeowners and stability for neighborhoods—rather than becoming stigmatized as low-income tract housing projects.

Contemporary efforts to reduce construction costs and improve energy efficiency through improvements in building technology, materials, and floor plans are discussed, as well as the affordability dimensions of livable neighborhood design such as the accessibility of homes to transit, jobs, shops, parks, and public services. The chapter closes with a challenge to think beyond the traditional construction cost and home mortgage subsidy dimensions of the homeownership equation and focus on the income-producing potential and adaptability of the house and the neighborhood to help expand affordable homeownership opportunities. The central thesis of the chapter is that affordable homeownership is best realized and sustained as part of a broader place making and community building initiative.

Planning and Design for Affordable Housing and Neighborhoods: A Retrospective

Over the past century a wide variety of efforts have been made to provide safe, decent affordable housing for the working poor, for chronically unemployed and disadvantaged groups, and, more and more, for low- and moderate-income households that have been unable to secure affordable housing in increasingly expensive real estate markets. The relative importance given to the architecture and urban design of affordable housing has periodically fluctuated in relation to policy-oriented goals and expectations concerning the quantity, cost effectiveness, and delivery of housing for these different groups. The late-twentieth-century history of failure in large-scale housing projects and urban renewal schemes led to the viewpoint that physical planning and design were part of the problem, not part of the solution for the challenges of affordable housing and community development.

While this chapter focuses on the planning and design of affordable housing for *homeownership,* there is a public policy apparatus, an industry, and indeed a culture of affordable housing production that has inherited the legacies of a variety of planning and design methods from prior eras. Efforts to confront the mistakes and excesses of planning and design for affordable housing from these earlier eras have become a focus of affordable housing programs at the federal, state, and local levels of government and have inspired many nongovernmental organizations, such as Habitat for Humanity and other faith-based coalitions, to develop their own approaches outside of formal government bureaucracies. In order to gauge how well current efforts have done in overcoming the failures of prior eras and the extent to which they may be repeating some of the same mistakes, this section provides a brief retrospective on the planning and design of affordable housing in the United States.

Given the severity of economic and social problems experienced in many inner-city neighborhoods, the decline in federal funding for building assisted housing (a term encompassing both public and all manner of affordable housing) and revitalizing inner cities, and the impact of welfare reform, it is not surprising that physical planning and design had become a low-priority area of housing and community development policy in the United States by 1990. Yet the design of housing and neighborhoods was a core issue in reform movements dating back to the late-nineteenth-century roots of the Progressive Era.

1900–1930: Civic Art

Initially a major goal of assisted housing design was to relieve conditions in the overcrowded, unsanitary, fire-prone tenements that housed the masses of urban immigrants around 1900, exposed vividly by reformers such as Jacob Riis in New York City and Robert Hunter in Chicago (Hunter 1901; Riis 1971 [1890]). Progressive reformers crusaded for safer, less crowded buildings with more light, more

air, and better access to urban parks and playgrounds as a means of improving the health, well-being, and "morality" of the poor. In response, municipal governments and early planners began working to improve the conditions of inner-city neighborhoods through changes in building codes, improved public infrastructure, and the provision of parks and recreation areas. One of the most far-reaching innovations for physical planning and design was the introduction of the first zoning law in New York City in 1916, which provided for the "regulation by districts under the police power of the height, bulk, and use of buildings, the use of land, and the density of population" (Gallion and Eisner 1986, 80). Ironically, it is the rigid application and abuse of this same power that has often resulted in the concentration and isolation of the residents of assisted housing (Babcock and Bosselman 1973).

The reformist reaction to the tenement slums also planted the seeds of eventual destruction for a wide variety of urban housing types that became associated with slum conditions. As Milwaukee mayor John Norquist wrote in the late 1990s:

> A detrimental consequence [of the reform movement] . . . was the attachment of stigma to such urban housing forms as New York City's tenements and Boston's triplexes. Housing reformers . . . claimed the market had failed. Yet from the Civil War until the Great Depression, "the private housing market generated a cornucopia of housing forms to accommodate those of modest means." The Boston triple-decker houses vilified by reformers, for example, were often owner occupied. (Norquist 1998, 103, quoting Huseck 1997)

At about the same time, early architect–town planners such as Raymond Unwin, Barry Parker, Elbert Peets, and John Nolen, inspired by Ebeneezer Howard's vision of "garden cities," were developing plans for homes and neighborhoods aimed at relieving tenement slum conditions in industrial cities. Unwin and his contemporaries sought ways to house the urban masses in less overcrowded urban settings designed according to principles of civic art advanced by Camillo Sitte, Unwin, Werner Hegeman, and Peets (Hegemann and Peets 1922; Sitte 1964 [1889]; Unwin 1994 [1909]). As interpreted and promoted by Unwin, civic art was not simply about urban beautification but meant "adopting an orderly framework of streets and public spaces within which the work of individual architects could take its place, and introducing such devices as axial views, expansive public squares, and formal groupings of buildings" that, in effect, set the stage for human activity (Rybczynski 1995, 133). As Witold Rybczynski (1995, 194) writes, the aim of Sitte's and Unwin's work was to "explain what it is that makes towns and cities of the preindustrial period so pleasing, and to formulate specific principles of urban design that can be adapted to the modern period." This is very similar to what the New Urbanism seeks to do today, drawing on both the pre-twentieth-century precedents and the classic town planning work of the 1900–1930 era.

To their credit, the early town planners applied the principles of civic art equally whether planning for the implementation of L'Enfant's design for Washington, D.C.; wealthy speculative communities like Coral Gables, Florida; industrial ("company") towns like Kingsport, Tennessee; or working-class neighborhoods in industrial cities. The notion of civic art was also present in the earliest federal government experiments in housing, the emergency war housing projects built in 1917–18 for defense workers. These projects included Hilton (Virginia), Union Park Gardens (Wilmington, Delaware), Craddock (Virginia), and Yorkship Village (now Fairview in Camden, New Jersey), as well as smaller projects such as Seaside Village (Bridgeport, Connecticut). The pedestrian-friendly design, deflected vistas, residences within walking distance of the workplace, and use of the architectural style and materials of contemporary market-rate housing adopted in Seaside Village exemplify the era of civic art in early-twentieth-century planning and design of affordable workforce housing created under the Emergency War Housing Act (see figures 6.1 and 6.2).

Figure 6.1. Seaside Village: affordable housing built for defense workers during World War I featured the architectural styles and materials of market-rate housing. Bridgeport, Connecticut. Author's photo.

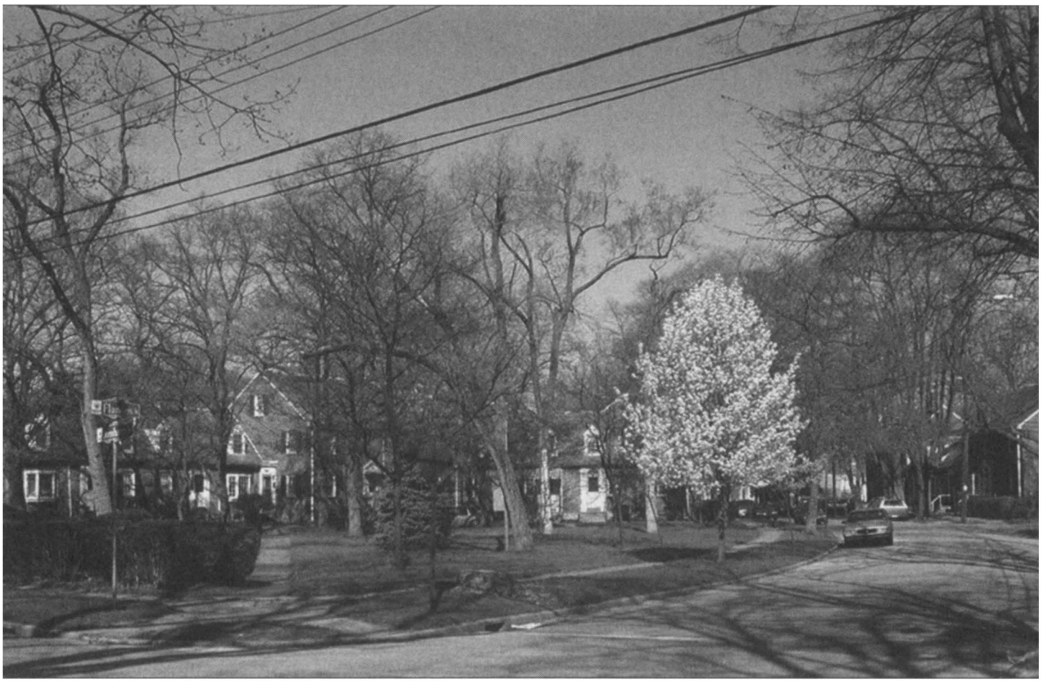

Figure 6.2. Seaside Village and pedestrian-friendly design. More than beautification, civic art principles emphasized orderly spaces that set the stage for human activity. Author's photo.

The war housing projects were located in industrial centers along the New England and mid-Atlantic coast and, like Howard's garden cities, were planned as largely self-sufficient neighborhoods and communities with employment, shops, and community services all located within walking distance or a short streetcar ride from workers' homes. Their physical planning and design are consistent with what New Urbanists now refer to as "traditional urbanism," characterized by compactness, a mix of land uses, an interconnected network of boulevards, streets, and alleyways oriented toward pedestrian use, and clearly defined centers and edges. Many of these places have endured, even Yorkship Village and Seaside Village, despite having long since been encircled by blighted, decaying areas of Camden, and Bridgeport, respectively.

1937–1948: Barracks-Style Housing

The federal role in housing and urban development quickly dissipated after the First World War. Subsequent efforts to create housing for "the deserving poor" were a constant battleground between private-sector real estate interests, advocates for public housing and the poor, and government administrators and politicians. Efforts to redevelop tenement slums and create public housing were

not revived until the Great Depression, when the New Deal initiated major programs and institutions that have continued to affect housing and community development to this day. One of the most instrumental of these was the Wagner-Steagall Act of 1937, which provided federal funding "to remedy the unsafe and unsanitary conditions and the acute shortage of decent, safe, and sanitary dwellings for families of low income . . . that are injurious to the health, safety, and morals of the citizens of the Nation" (United States Housing Law of 1937, quoted in Roth 1983, 515).

Some early public housing projects funded by the 1937 act made an attempt to blend with the existing urban fabric by adopting the block pattern, street grid, and building types that were characteristic of the city. Such was the case with the low-rise predecessors of the now notorious, and largely dismantled, Cabrini-Green high-rise projects in Chicago:

> The oldest housing on the site dates from 1941. . . . Frances Cabrini Homes was built on the site of a notorious Italian-American slum known as Little Hell. The new housing consisted of almost 600 dwellings in two- and three-story brick buildings; the total area of the project was relatively small: sixteen acres. The unassuming architecture of these row houses—every dwelling had its own front door on the street—was not substantially different from the popular urban housing then being built by the private sector in the surrounding city. The brick facades even incorporated some decorative elements. The overall design, like that of most prewar public housing projects, is modest but unremarkable; *it was taken for granted that poor people would prefer to live like everyone else.* (Rybczynski 1993, 82–83; emphasis added)

This design approach, however, was short-lived. From the very beginning, in the struggles over the government role in housing and community development, there was an ever-present, thinly veiled contempt for using taxpayer money to build and improve housing and neighborhoods for poor people. Efforts were made to distinguish the "deserving poor" from other impoverished citizens who would be excluded. Those to be excluded were typically the unemployed and otherwise disadvantaged, who were presumably "less deserving" or "unworthy" of assisted housing (Vale 2000).

Buoyed by pressure from interest groups such as the U.S. Building and Loan League, which did not want housing projects supported by public funds competing with market-rate housing, conservatives amended the Wagner-Steagall Act to prohibit the use of "elaborate or expensive design or materials." As a result, many more projects would be planned and built in a "barracks-style" format, characterized by repetitive rows of low-rise apartment blocks. The buildings themselves were boxlike, constructed of brick, concrete slabs, and cinder blocks, and were devoid of even the most common types of ornamentation and vernacular traditions. This signaled the beginning of efforts to "design down" assisted housing

and put both the architecture and neighborhood design of assisted housing on a path that would differ dramatically from that of existing housing and neighborhoods. The break with local and regional vernacular traditions of architecture and neighborhood structure would place assisted housing developments out of context with their communities, making them visually distinct from market-rate housing and contributing to the stigma of "the projects."

Under the Wagner-Steagall Act, the Boston Housing Authority (BHA) would construct more than five thousand units in eight projects between 1936 and 1940, carefully omitting all "unnecessary expense and frills." Following guidelines set forth by the United States Housing Authority (USHA), the BHA "substituted curtain rods for closet doors," "jammed dining and kitchen areas together," and covered interior cinder block walls with plaster as "finishing touches." As Alexander von Hoffman observed, while these "developments were built to last, they were not created to enjoy" (1998, 38). The notion of civic art and contextual planning and design that the emergency war housing communities had exhibited was now purposely discarded for this and all subsequent public housing initiatives, leading Lewis Mumford to dub these projects "the slums of the future" (Roth 1983, 515). Oglethorpe Homes, constructed in Macon, Georgia, in 1940, exemplifies the barracks style of public housing and the departure from the building types, architectural styles, and materials of market-rate housing. Oglethorpe Homes was demolished in 2003 as part of a HOPE VI project (see figure 6.3).

Mumford's prediction, however, was premature. Compared with what are now considered "distressed inner-city neighborhoods," the neighborhoods where assisted housing was located prior to the 1949 Housing Act were "generally looked upon favorably as a decent, affordable place to live" (Holzman 1996, 363). The construction of assisted housing had afforded job opportunities and homes for people during the Great Depression, and provided housing for working families and returning war veterans and their families throughout the 1930s and 1940s.

The barracks style would eventually give way to the modified Garden City concepts of Clarence Stein and Henry Wright, exhibited in their Sunnyside Gardens (1928) project in New York City. The influence of Sunnyside Gardens can be seen in the design of early public housing projects characterized by three- to four-story apartment buildings arranged around the outer edges of blocks and oriented inward toward an open landscaped courtyard in the center. This "superblock" format would become a common building block of neighborhood plans for many market-rate apartment projects and the majority of assisted housing projects beginning in the 1930s (O'Neill 1999, 4).

1949–1970: Urban Renewal, Towers-in-a-Park, and Subsidized Suburbia

Following the hiatus in urban reconstruction programs during the Second World War, the 1949 Housing Act would provide unprecedented levels of federal

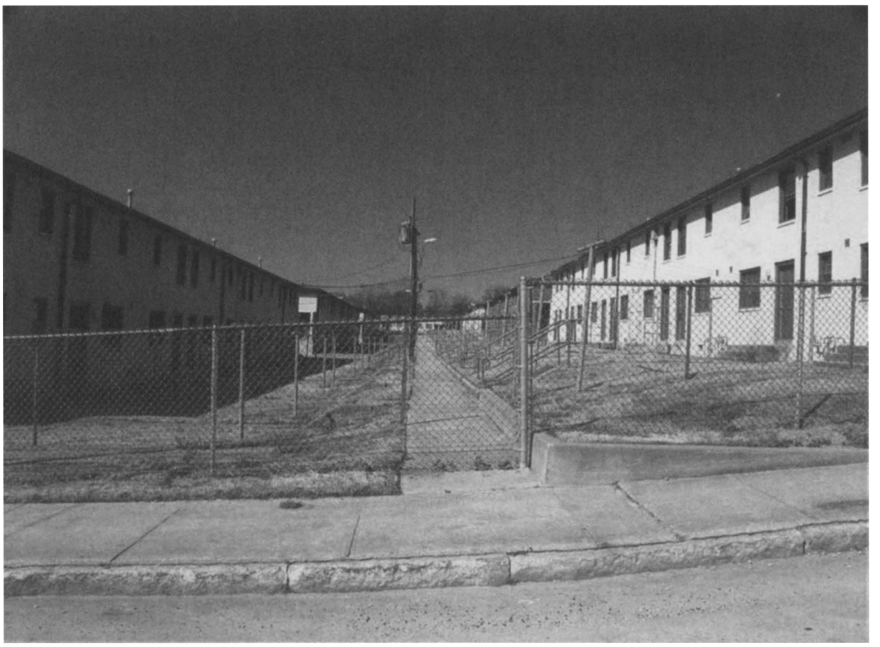

Figure 6.3. Oglethorpe Homes, constructed in Macon, Georgia, in 1940, exemplifies the barracks style of public housing and the departure from the building types, architectural styles, and materials of market-rate housing that were overwhelmingly single-family, stick-frame houses in this neighborhood. Oglethorpe Homes was demolished in 2003 as part of a HOPE VI project. Author's photo.

funds for "housing production and related community development" and "the elimination of substandard and other inadequate housing through the clearance of slums and blighted areas" (Roth 1983, 515). In hindsight, it appears inevitable that the ascendant architecture and planning movement at the time, modernism, would come to dominate the design of postwar urban renewal projects. What could not be foreseen was the long-term damage that the wholesale application of modernist planning and architecture in urban renewal, assisted housing, and highway programs would do to the field of physical planning and design.

Modernist planning and design introduced an entirely new paradigm to American cities. Whereas Unwin and his contemporaries had viewed the excesses of industrial urbanism as a short-lived transgression against traditional urbanism, the modernists viewed them as symptoms of the complete obsolescence of traditional urbanism and architecture. Old neighborhoods, towns, and cities were deemed incapable of accommodating the increased population, industrial production, and automobile travel of the modern metropolis. The solutions offered in the form of Le Corbusier's "Radiant City" and Frank Lloyd

Wright's "Broadacre City," therefore, were developed in complete contrast to the traditional urban fabric. Whereas Wright's vision represented a premonition of sprawling suburban areas, many of Le Corbusier's ideas were actually adopted in carrying out urban renewal and assisted housing programs. The extent to which modernist planning and design contrasted with the traditional urbanism that preceded it cannot be overstated.

- Whereas Stein and Wright had attempted to apply innovative designs within the existing urban fabric of streets and blocks, modernists completely erased these and replaced them with much larger superblocks as much as twelve times the size of an ordinary block (Hall 1988, 238).
- The existing street pattern, typically an interconnected grid system that accommodated both pedestrians and vehicles and connected neighborhoods internally and to other sections of the city, was replaced with vast open spaces accessible only to pedestrians. Winding pedestrian pathways and high-speed expressways replaced pedestrian-oriented local streets, which were to be transformed into the elevators and hallways of the "vertical neighborhoods" internalized within high-rises.
- Traditional housing forms such as row houses, flats, twins, and duplexes were demolished and replaced by high-rise apartment buildings.
- In the traditional city, buildings formed street-walls, enclosing and defining a public realm composed of streets, squares, and plazas. In the modernist arrangement this relationship was reversed, with wide open spaces used as a stage surrounding the isolated high-rise buildings; hence the "tower-in-the-park" description.
- Consistent with Le Corbusier's disdain for the urban street, modernist planning included "a rejection of traditional front and back, public and private in favor of a definition of all open space as public and accessible to all" (O'Neill 1999, 4). The façades and entrances of buildings now faced inward, toward the open space, with their backs to the street, effectively deadening the street life and urban vitality that Jane Jacobs argued were essential aspects of urban life (Jacobs 1961).
- In assisted housing projects, the buildings themselves were, as Rybczynski has noted, "standardized, stripped-down, and undecorated tall buildings" promoted for their ability to "be erected quickly and inexpensively. . . . It is also likely that the plain architecture suited the puritan view of many Americans—and certainly of the housing reformers—who felt that social housing should not be fancy" (Rybczynski 1993, 86).

Pleasant View Gardens in Baltimore, for example, was originally based on a typical modernist "tower-in-the-park" site plan commonly used for high-rise public housing from the 1950s through the 1970s. That development was rebuilt under

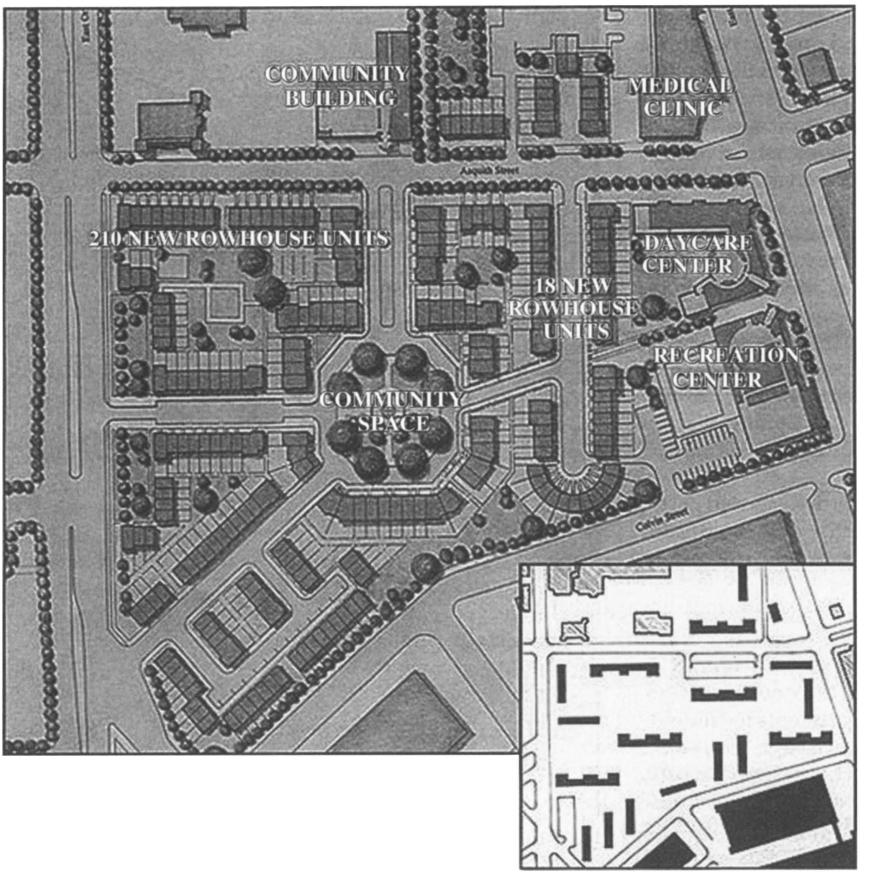

Figure 6.4. HOPE VI site plan for Pleasant View Gardens. The streets and public spaces are clearly defined, compared with the original modernist site plan (lower right corner), which featured high-rise buildings floating in a superblock. Baltimore, Maryland. Courtesy of Torti Gallas and Partners, Inc.

a HOPE VI program using a site plan based on New Urbanist design principles (see figure 6.4).

The massive urban renewal and highway building programs of the 1950s and 1960s would drastically transform the physical constitution of many inner-city neighborhoods, not limited to those involving low-income housing. Some neighborhoods, typically those with the least political power, would be broadsided or divided by urban freeways, while others were completely erased, their residents displaced, and dozens of blocks leveled. Given that much urban housing dated back to the tenement slum era and earlier, and that new construction and maintenance were arrested for long periods of time during the Great Depression and

World War II, many individual structures and some entire neighborhoods were undoubtedly beyond rehabilitation. Others, however, were sacrificed as "slums," despite ballots and research which showed that their residents viewed many of these neighborhoods quite differently than did officials, and grieved for their loss when they were destroyed (Gans 1962; Fried 1963).

Many of the neighborhoods razed were composed of diverse single- and multi-family housing types that had been adapted to house successive generations of families of different sizes and different incomes. As one public official commented at the height of urban renewal in the mid-1960s, "There's a real need for what we call secondary housing, and if we condemned it we'd wipe out the housing the people could afford" (Hall 1988, 234). Thirty-three years later Milwaukee mayor John Norquist reiterated this point in a book passage subtitled "Destroying the Village to Save It": "In the postwar era, housing markets in U.S. cities included a variety of low-cost options. . . . Not all the housing was pretty, and some could be a tight fit, but the options included walk-ups, apartments over stores, triplexes, duplexes, single-family houses, apartments over garages, flats in back, boarding-houses, tenements, and row houses" (Norquist 1998, 100–101).

Cities, Norquist notes, had low-cost, affordable housing before the federal government invented it. Although much of this housing fell short of today's standards, and much of it was filled beyond safe capacity, people were never separated from the weave of urban life by contrived housing arrangements. Efficient low-income housing techniques grew organically in cities (Norquist 1998, 100–101).

Norquist goes on to describe the different types of housing created by successive waves of immigrants in Milwaukee, including modest three- or four-room cottages, known as "Polish flats," and two-story, two-family duplexes prevalent in German neighborhoods. He notes examples from other cities as well, including the one-story "shotgun" house in Atlanta and Houston, the brick bungalow in Chicago, and the two-flat townhouses of Philadelphia that "filled half its area." Coatesville, Pennsylvania, for example, has a traditional mix of affordable housing types in the form of "twins" (duplexes that resemble single-family homes) and apartments above stores (see figure 6.5). Modernism declared these diverse, flexible, time-tested housing types obsolete, and urban renewal swept them away in neighborhood after neighborhood.

Modernist planning and design had been advocated for a variety of reasons, including the efficient use of land; reduced construction costs; and the creation of safer, more sanitary, better-constructed units that could provide residents with more sunlight, air, unobstructed views, and open space. Architects also presumed that the International Style would itself inspire residents and instill a sense of pride in their new and improved city (Corbusier 1929, 240–47). In public housing projects, however, there were many overt design problems with the buildings themselves, some of which resulted from stringent cost controls; but others were

Figure 6.5. Traditional housing mix in Coatesville, Pennsylvania. Author's photo.

simply stylistic innovations that were insensitive to climate, the threat of crime, and the social and cultural characteristics of users. (For example, see Rybczynski 1993; Salama 1999; and O'Neill 1999, 6.)

The presumed efficiency of modernist planning and design was also questionable, and the location of projects on expensive inner-city sites, combined with the cost of slum clearance, "sinking caissons, building and operating elevators, and maintaining open spaces made tower-in-the-park public housing more expensive than low-rise units" (Hoffman 1998, 39). The claim of more efficient use of land was also challenged by Jane Jacobs, who identified numerous examples of older neighborhoods consisting of traditional low-rise row houses that achieved densities equal to or greater than that of high-rise urban renewal projects (Jacobs 1961, 200–204).

The impulse to make assisted housing *appear* inexpensive also became self-defeating at times, as noted by the architect who designed Cabrini-Green's nineteen-story buildings:

> Back in those days, public housing was considered charity. It wasn't your God-given right like social security. So it had to look economical, it had to give the impression of being inexpensive. For example, it actually cost more to have the painter paint the address numbers on the buildings than it would have to put up metal numerals. But I wasn't allowed to put up numbers because it looked expensive. (Marciniak 1986, 98)

But most important, as housing advocate Catherine Bauer (1957, 146) would eventually come to conclude, "life in the usual public housing project just is not the way most American families want to live."

The major influence on homeownership which began during this era, however, was the advent of low down payment, long-term fixed rate mortgages insured by the federal government through the Federal Housing Administration (FHA). As summarized by Robert Fishman (1999, 2), the standards adopted by the FHA had a dramatic effect in reshaping the American metropolis:

> The FHA imposed standards for both home and subdivision design that quickly became the norms for the home-building industry. More important, FHA-insured mortgages in the two decades following World War II were limited to race-restricted housing on the suburban fringe; the FHA refused to insure mortgages on older houses in typical urban neighborhoods. Thus a white home buyer who wished to stay in his old neighborhood had to seek old-style conventional mortgages with high rates and short terms. The same purchaser who opted for a new suburban house could get an FHA-insured mortgage with lower interest rates, longer terms, a lower down payment, and a lower monthly payment.

When FHA financing and subdivision standards were combined with mass production of standardized home plans to speed production and cut costs, the result was Levittown and the birth of mass-produced suburban tract housing. The Levittowns and their successors would "for the first time put the single-family detached suburban house within the budget of most middle-class and even working-class families" (Fishman 1999, 2). The predominance of the low-density, single-family detached subdivision model would transform metropolitan regions throughout the United States and eventually infiltrate the cities themselves, as suburban design standards were credulously applied in urban renewal efforts which destroyed the variety of affordable urban housing types set in walkable neighborhoods celebrated by Norquist (1998). The result was that the low-density, detached, single-family house would become a primary form of new housing produced for homeownership initiatives regardless of the context.

Programs such as Section 235 of the 1968 Housing Act would, in fact, support the purchase of a variety of single-family properties, both new and existing, including detached, attached, and mobile homes. In practice, however,

the program enabled white homebuyers to purchase primarily new, detached single-family homes in suburban areas, while a much smaller number of African American families purchased primarily existing detached and attached housing in inner-city neighborhoods. In this regard, the experience in the United States with producing affordable housing for purchase differed significantly from that in Europe, which has much higher rates of ownership of multifamily units. As land and housing costs have increased in the United States since the mid-1990s, this has begun to change, with ownership of town homes and condominiums becoming much more common.

1970–1990: Design in Exile

Certainly not all assisted housing and inner-city renewal projects were unsuccessful. Many of their problems had nothing to do with architecture and planning, including "poor locations; poor tenancy controls; enormous concentrations of very poor socially troubled families; design flaws; poor maintenance; few supporting social services; and inept management" (Fuerst and Petty 1991, 118). Income limits ("means testing") imposed by Congress are widely blamed for transforming many inner-city neighborhoods from mixed-income, working-class areas to concentrated pockets of extreme poverty and social problems. Discrimination and racism also played a role, often serving to politicize decisions on where to locate assisted housing within cities. As a result, many projects—already isolated by their inherent superblock design—were located in districts remote from employment, retail, and public service centers and in areas already distressed and dominated by households dependent on social services (Nenno 1996; Schill and Wachter 1995). In 1969 this situation led to the landmark case of *Gautreaux v. Chicago Housing Authority*, which resulted in a court order to desegregate Chicago's public housing.

By the 1960s assisted housing and urban renewal projects in Boston, Newark, Chicago, San Francisco, St. Louis, and other major cities were being widely criticized as failures (Jacobs 1961; Anderson 1964; Gans 1967a). Many high-rise public housing projects, in particular, became symbolic of everything that was wrong with urban America. An increasing number of households in need of housing were refusing to move into projects (Marciniak 1986, 101). Vacancy rates for projects in Chicago, St. Louis, and Newark ran as high as 30 or 40 percent at the same time that waiting lists numbered in the tens of thousands (Hall 1988, 235). Projects that were barely twenty years old, designed to last at least sixty years or more, were being abandoned and demolished.

By the time the Pruitt-Igoe housing project in St. Louis was imploded in 1976, a mere nineteen years after its award-winning construction, including two years when it was completely uninhabited, the manner in which assisted housing had been planned and designed was being cast as part of the problem rather than part of the solution. In fact, physical planning and design in general were being

widely attacked and discredited as a means for improving living conditions and relieving social problems.[1]

From this time forward, the use of physical planning and design for addressing housing issues and the problems of inner-city neighborhoods was labeled and discredited as physical, environmental, or architectural "determinism."[2] Policymakers, researchers, and systems analysts began largely to ignore the everyday built environment and increasingly focused on the desperate need for job training, counseling, economic development, law enforcement, and a variety of social welfare programs to cope with the malaise of inner-city neighborhoods. Policies and programs were often applied as if residents existed in a virtual realm rather than within the harsh reality of distressed inner-city neighborhoods. Yet it was the continued physical deterioration of these neighborhoods that would "remain in the public consciousness," and come to symbolize the failure of housing and welfare policies for many Americans (Garvin 1996, 169).

As the blight and abandonment of many neighborhoods and the rising vacancy rates in many projects would testify, the stigma and failure associated with them was apparent not only to outsider observers but also to the residents themselves. While debates over the strength and direction of causality between the environment and behavior continued, it became more and more difficult to ignore this physical deterioration. The condition of buildings, streets, sidewalks, and open space, the extent to which neighborhoods were cut off from the fabric of the city, the fact that entire neighborhoods were made up exclusively of low-income housing units, and the absence of employment and commercial facilities in inner-city neighborhoods were all negative physical characteristics that, at the very least, contributed to their distressed condition. As Rybczynski (1993, 87) observed, "Despite the argument . . . that 'Architecture is not the solution, architecture is not the problem,' it's obvious that large islands of high-rise apartment blocks that contribute to social isolation are a problem." After two decades of essentially design-less social welfare and community development policies, there was a growing realization that these programs and policies were having marginal success in relieving troubled urban neighborhoods and that the most severely distressed projects were getting worse, not better.

While the federal government fought a long retreat, attempting to withdraw from housing and urban development as early as the Nixon administration, the steady stream of news coverage on the decaying condition, drugs, and crime in public housing projects became impossible to ignore by the end of the 1980s. Exasperated by the chronic problems in many public housing projects and dissatisfied

1. See, for example, Berger 1960; Gans 1962, 1967a; Keller 1968.

2. See Herbert Gans's 1961 essay "Urban Vitality and the Fallacy of Physical Determinism" (Gans 1991, 36, 41).

with the results of previous programs and policies, in 1989 Congress established the National Commission on Severely Distressed Public Housing to help decide what course to take. The commission's report, issued in 1992, recommended the demolition of some 86,000 units of severely distressed housing, representing nearly 7 percent of all public housing (National Commission on Severely Distressed Public Housing 1992). In October 1992, amidst national coverage of a seven-year-old boy fatally shot by a sniper from an abandoned high-rise apartment while walking to school with his mother in Cabrini-Green, the Urban Revitalization Demonstration Program (later to become HOPE VI) was initiated. More than three decades after Herbert Gans remarked on the "fallacy of physical determinism," policymakers and housing advocates were again ready to entertain the idea of physical planning and design as at least part of an overall strategy to provide safe, decent affordable housing and to revitalize ailing inner-city neighborhoods.

New Directions in Affordable Housing Planning and Design

The 1980s would signal a shift in housing policy in the United States away from large-scale public housing projects and toward a variety of programs aimed at reversing widely discredited assisted housing policies that had led to extreme concentrations and isolation of American society's most impoverished, disadvantaged populations. New efforts focused on a variety of strategies including the provision of housing vouchers and affordable homeownership programs, Although Congress had begun to curtail direct funding for the construction of new high-rise buildings for families with children as early as 1969 and would discontinue such funding in the early 1970s, the means for financing isolated assisted housing projects in the form of stripped-down apartment buildings for families and high-rise towers for the elderly extended well into the 1980s under mortgage subsidy and tax credit programs.

Since the late 1960s, high levels of government funding for large-scale housing projects have been supplanted by programs such as Section 235 and Section 236 of the 1968 Housing Act, which allowed the Federal Housing Administration to subsidize mortgages for single- and multifamily homes down to 1 percent; the Section 42 Low Income Housing Tax Credit (LIHTC) program created by the Tax Reform Act of 1986, which has provided financing for garden-style, mid-rise and high-rise apartment buildings; and the HOPE VI program which typically replaces high-rise housing projects with a mix of apartments, townhomes, and condominiums, including owner-occupied units at both market rates and various subsidized rates. These programs gradually spurred increased involvement on the part of small nonprofit organizations, local governments, and the private sector in building small increments of affordable housing ranging anywhere from a single house or apartment building to several dozen single- and multifamily

homes at a time. As illustrated in texts such as *Good Neighbors: Affordable Family Housing* (Jones, Pettus et al. 1998) and *The Architecture of Affordable Housing* (Davis 1995), there is now an extraordinary range of affordable housing work to consider. The decentralization and grassroots origination of affordable housing production have introduced a much wider variety of housing types that are generally better adapted to local needs and mores. Designs for rental and homeownership properties have been introduced at all levels of affordability that respond to the needs of many different types of clients, ranging from AIDs patients and the elderly to singles, families, and multigenerational households.

Since the mid-1990s we have seen two major directions in the planning and design of affordable housing. The first represents efforts to develop efficiencies and "technical fixes" for more economical residential construction of single- and multifamily housing types aimed at affordable homeownership. The second represents a more dramatic paradigm shift, away from the "projects" format of assisted housing planning and design of the previous fifty years and toward a *place making* approach that incorporates affordable housing within the context of traditional neighborhood planning.

Technological Fixes and Efficiencies for Construction and Reduced Life Cycle Costs

A major thrust of affordable housing design has been to reduce the cost of housing through the application of technology, more efficient design, and economies of scale in production. Secondary emphasis has been placed on the life cycle costs that can make housing more or less affordable over time, such as energy-efficient design and the use of materials that last longer and require less maintenance.

In terms of construction efficiencies, there have been moves toward designing smaller homes using standard dimensions, which allows the use of less expensive, off-the-shelf construction materials and requires less on-site customization. At the same time, manufactured housing has expanded product lines to offer larger models with more amenities. Although long touted as one of the most promising areas for cost control, the use of factory-built manufactured, panelized, and modular housing has only recently been enjoying wider application.

> There are over 8 million manufactured, HUD-code units in the U.S., representing two-thirds of affordable owner-occupied units added to the stock in recent years and a growing portion of all new housing. Not surprisingly, 67 percent of manufactured housing occupants have incomes below 80 percent of the area median. A substantial share of the growth in low-income homeownership evidenced in the 1990s has been driven by manufactured homebuyers. (Collins 2002, 42)

Both manufactured and modular housing afford significant cost savings in terms of dramatically lowering the amount of labor-intensive on-site construction.

Pre-manufactured components such as wall panels and roof trusses are also typically stronger than those created on site. Manufactured housing is an increasingly important category of affordable housing for homeownership, with HUD-code factory-built units saving 20 to 30 percent of the development costs of a site-built home (Apgar, Calder et al. 2002, 16).

> Advances in design and technology have made manufactured units more suitable for urban infill developments. In addition to savings from production techniques and lower materials and labor costs, factory-built units dramatically reduce security costs and speed up the development process (Apgar, Calder et al. 2002, 3)

The challenge for manufactured housing has been to transform its "trailer park" image to produce housing types, configurations, and styles that fit within a variety of urban and regional contexts. The results of efforts to achieve contextual models for manufactured housing have been very uneven to date, and even coherent initiatives such as the Manufactured Housing Institute's Urban Demonstration Project (MHI UDP) have achieved mixed results.

The UDP effort has also spawned state-level initiatives such as the North Carolina MHI project that constructed a 1,500-square-foot, three-bedroom, two-bath home "in the shadow of the North Carolina state house in downtown Raleigh, NC."[3] The home came with a factory-constructed front porch, and was designed to blend in with the 1920s bungalow-style architecture of the neighborhood while achieving a sales price that was 40 percent less than the cost of a comparable site-built house on the same lot.

Similar demonstration projects have been carried out in Wilkinsburg, Pennsylvania; Washington, D.C.; Louisville, Kentucky; Birmingham, Alabama; and Milwaukee, Wisconsin. Each initiative attempts to adapt manufactured housing to the local context with features such as large front porches, traditional roof pitches, high ceilings, and one- and two-story plans designed to fit on narrow urban lots. The examples are not limited to single-family homes. For example, the "Grow Home," designed by Avi Friedman and Witold Rybczynski and discussed in a separate chapter of this book, represents an affordable town house that measures fourteen feet wide by thirty-six feet deep.

Modular and manufactured housing also has the potential to deliver more affordable housing with less need for complex public-private financing partnerships and subsidies that typically impose higher project management costs, take longer to reach the market, and are subject to additional standards and regulations imposed by each funding agency. Old Progresso Village in Fort Lauderdale,

3. "Raleigh Project Demonstrates Urban Uses for Manufactured Housing," Manufactured Housing Institute, http://www.manufacturedhousing.org/ developer_resources/urban_design_raleigh.asp (accessed September 3, 2004).

Figure 6.6. Factory construction of homes in Old Progresso Village, Fort Lauderdale, Florida. Courtesy of Lynn Fitzpatrick.

Florida, provides one example of a small, market-driven project that delivers affordable housing in the rapidly growing Broward County real estate market without the use of subsidies (see figures 6.6–6.8).

When looking for a warehouse, the developer discovered sixty vacant lots behind some light commercial buildings in the city's Community Redevelopment Area (CRA) within walking distance of Fort Lauderdale's vibrant Las Olas Boulevard in the downtown. The developer reduced costs and accelerated the development process through the use of manufactured housing, which streamlined permits and inspections and enabled him to offer affordably priced homes and still earn an acceptable return on investment. Stick built homes were manufactured in a factory and delivered to the site, where stucco was applied and details installed that were consistent with typical single-family housing design in the South Florida market. Four different unit types were delivered ranging from 960 to 1,600 square feet at prices 30 percent below the median price of new housing in Broward County. The layout and landscaping of the lots has created an attractive, affordable urban neighborhood in the downtown and helped to bring the new city water and sewer systems to existing low-income homeowners in the area earlier than was scheduled.

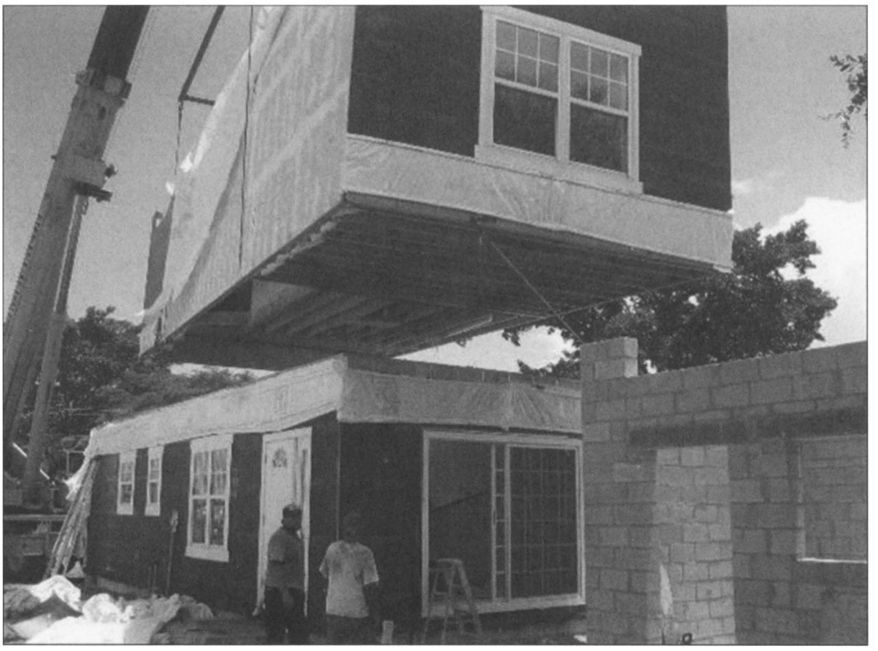

Figure 6.7. Delivery and assembly of homes, Old Progresso Village. Courtesy of Lynn Fitzpatrick.

Affordable housing projects are often criticized for having to sell homes at a loss where land and construction costs exceed sales prices. Both Friedman's designs and the Old Progresso Village homes show how efficient design and technological improvements can reduce market rate construction costs to the level where for-profit housing becomes affordable. Even these increased efficiencies, however, cannot bring housing costs down to an affordable threshold in many rapidly growing U.S. cities and regions. Areas that have enjoyed rapid employment and population growth in recent decades have attracted low-income households and immigrant groups who fill low-wage jobs, struggle to find affordable rental housing, and have to move frequently as demand outstrips supply and rents continue to rise. In San Jose, California, for example, the median household income has reached nearly $90,000. Using the standard definition of affordable housing, which takes 80 percent of the median household income as a threshold, this translates into "affordable housing" targeted for households earning $72,000, an unattainable standard for thousands of low- and moderate-income households. As a result, multiple families are living in small single-family ranch homes built in the 1960s and 1970s that now sell for more than $400,000.

Figure 6.8. Final finishes for homes in Old Progresso Village. Courtesy of Lynn Fitzpatrick.

The addition of public-sector assistance, such as low-income loans, donated land, and subsidies, can reduce the purchase price of homes even further and bring homeownership within reach of households that fall well below the standard definition of affordable housing. The Eliza B. McCabe Townhomes, for example, owned and managed by Intercommunity Mercy Housing of Washington in Tacoma, provides housing for residents at 30 to 60 percent of the area's median income.

Efficient house layout and design of interiors can also reduce the amount of space required for hallways and stairways and produce smaller yet more efficient rooms. As Feldman and Chowdhury (2002) note, compact housing forms achieved through space efficiencies and multistory design have a significant impact on both construction and life cycle costs.

> Compact building forms minimize the building's "envelope," and thus decrease costly building components, such as the foundation, roof, and exterior walls. A one-story single-family dwelling is more expensive to build than a two-story structure with the same square footage, quality of construction and amenities. Compact building forms also reduce life-cycle costs because they are less expensive to heat, cool, and maintain. (Feldman and Chowdhury 2002)

It is often forgotten that the Levittowns, with their vaunted ability to mass produce single-family housing for the middle class, utilized very modest homes, as little as seven hundred square feet, and small lots to achieve their economies of scale.

Small housing need not be ugly or cheap looking. The rehabilitation of old traditional housing stock and sensitive infill of new, contextually sensitive homes in the Cotton District of Starksville, Mississippi, provides myriad examples of small-scale, highly efficient housing types (see figure 6.9). Designed, developed, and built by Dan Camp, a shop teacher from Mississippi State University, to house college students, the six-block district includes 135 cottages, fourplexes, sixplexes, sideyard houses, apartments over garages and retail, and what Camp calls "tiny houses" containing a total of over two hundred individual units. The extraordinary efficiency and affordability of the units, combined with their ability to be woven together with historic homes, has drawn the interest of affordable homeownership providers working in similar neighborhoods, who view many of the Cotton District's house types as potentially attractive low-cost homes for a variety of smaller households that constitute a growing segment of the market for affordable housing, including the elderly, singles, and couples with no children.

Figure 6.9. Dan Camp's tiny houses, Starkville, Mississippi. Author's photo.

Design for more energy efficient and durable construction has also gradually become a more common consideration that helps reduce the life cycle costs of affordable housing. While investments in energy efficient materials and appliances are still difficult to work into affordable housing budgets, simple timeless techniques for the orientation of houses and cross-ventilation can produce significant savings in heating and cooling costs.

The Affordable House and the Livable Neighborhood: "It's a Place, Not a Project"

The second major trend in affordable housing design has involved a paradigm shift away from the modernist project format typified by the barracks style and towers-in-a-park and toward the notions of place making, community building, and livable neighborhood design that puts housing in the context of the larger community.

Spurred on by the National Commission on Severely Distressed Public Housing, in 1992 Congress delivered a funded mandate to the U.S. Department of Housing and Urban Development to replace the worst public housing projects, those that were considered beyond rehabilitation as viable homes and neighborhoods. It was clear from the start that the solution could not be to replace twenty-year-old housing projects with new housing projects; there had to be a complete rethinking of planning and design for assisted housing. Under the leadership of Secretary Henry Cisneros, HUD would move away from the one-size-fits-all housing projects and toward a mixed-income neighborhood approach including market-rate units mixed together with affordable rental and affordable homeownership units. HUD adopted traditional neighborhood planning and design techniques (New Urbanism) to guide the HOPE VI and Homeownership Zones initiatives, a move that would come to inspire a widespread rethinking of how affordable housing is now planned and designed throughout the United States.

Previous eras had suffered from an overemphasis on housing units and not nearly enough attention to the concept of "home." As Ray Gindroz (2002) of Urban Design Associates has noted, the focus today is not on how to build "the cheapest possible box" but on creating mixed-income neighborhoods and communities that naturally provide for a wide range of affordable homes. A good example of this is in Macon, Georgia, where New Urbanist planning and design have been applied to the sensitive redevelopment and infill of a historic nineteenth-century neighborhood (see figure 6.10). The plan incorporates walkable, mixed-use, mixed-housing planning and design blending public housing units, subsidized affordable housing, and market-rate housing with shops and offices.

At its most basic level, traditional neighborhood planning creates opportunities for a wide range of affordable housing in the context of mixed-use, mixed-income neighborhoods that support low-cost means of transportation such as walking, biking, and public transit, better access to employment opportunities,

Figure 6.10. Beall's Hill plan, Macon, Georgia. Courtesy of Knight Program in Community Building, School of Architecture, University of Miami, Ayers Saint Gross.

and the possibility of experiencing a local sense of community within the larger city. As Pyatok (2000a) has observed, the extent to which housing is affordable is related to the extent to which a neighborhood supports an affordable lifestyle.

> Planning more mixed-use neighborhoods with a wide variety of work opportunities along with good public transportation, may be the single most important contribution to making housing more affordable rather than trying to develop the next generation of cheaper structural framing or siding materials. A cheaper suburban house out on the fringe of a city can be much more costly to a family when the ever-escalating costs of owning, operating, and servicing a second or even third auto (for teenagers) are taken into account, not to mention the hidden costs of time lost for work commutes and multiple trips for other needs. (Pyatok 2000a)

Traditional neighborhood planning creates a whole that is greater than the sum of the parts, that adds value to affordable housing and provides alternative amenities to those available in affluent suburbs. The parts (the houses) all contribute to and shape the outdoor rooms of walkable streets, tot lots, pocket parks, plazas, squares, and greens. Compact mixed-use neighborhoods allow people to substitute the public realm and accessibility to urban activities and amenities for the privacy and exclusivity afforded by larger homes on larger lots in the suburbs. The splendor of a well-made urban public realm with access to public libraries, community centers, and museums can substitute for the private opulence of entertainment rooms, workout rooms, saunas, and game rooms in upscale suburban communities.

It is entirely possible to design and build affordable housing in all different settings—in rural areas, suburban communities, small towns, and cities. By definition, however, for housing to be affordable, costs must be controlled, and one of the simplest ways to make housing more affordable is through increased density. This is particularly true in metropolitan areas with high land costs, scarce developable land, and employment centers with little affordable housing nearby. Putting more units on less land with costs of infrastructure and development spread out across a greater number of units introduces economies of scale that simply cannot be realized using conventional models of large lot, single-family subdivisions.

Affordable housing design in the United States has begun to find its way back to a middle ground between land-hungry suburban formats and discredited high-rise models, one that delivers a range of detached and attached housing types that Americans are accustomed to while raising density levels to achieve economies of scale. This has been made possible by the revival of traditional neighborhood design, which is capable of mixing a wide variety of housing types at high densities to create attractive, pedestrian-friendly neighborhoods. The ability to mix housing types and land uses has freed affordable housing from the pod format

endemic to suburban development, in which clusters of apartments, condominiums, townhomes, and various market segments of single-family homes all exist independent from one another.

The move away from high-rise projects has reintroduced "grounded-related" units, in which each residence has its own street address and some outdoor space directly affiliated with it in the form of front and back entrances, front and back yards, patios, balconies, porches, stoops, and terraces. Whereas the large public spaces in the projects typically degenerated into a no-man's land where residents felt no sense of ownership or control, ground-related dwellings with well-defined yards, stoops, courts, and porches restore a sense of personal ownership and control over the public and semi-public space of streets and neighborhoods.

Past eras focused on the internal workings of assisted housing units and inventive concepts such as "streets in the sky," where corridors and lobbies were envisioned as replacing traditional streets and public spaces. The current era restores the emphasis on housing within the context of a neighborhood composed of walkable streets and public spaces with attention refocused on *frontages*, on how buildings meet and interact with streets and public spaces.

Some of the challenges for designers when employing greater density include avoiding the excessive repetition of individual housing types; maintaining a desirable level of privacy for the inside of the home as well as for backyards, decks, and patio areas; and incorporating architectural styles and details that are appropriate within the context of existing housing or that reflect the history and culture of the target residents while maintaining affordability.

The architectural character and traditional building types employed in traditional neighborhood development have been criticized for appealing to the tastes of middle- and upper-income groups (Pyatok 2000b). This criticism, however, conjures up the puritanical views of the past that social housing should not be "fancy" and should go only to the "deserving poor." These types of arguments can only lead back toward the designing-down of affordable housing, a policy that generated the cold, industrial, avant-garde, and overtly cheap-looking designs of assisted housing in the past that contributed greatly to the stigmatizing of affordable housing.

The class warfare critique of traditional housing types and styles also ignores the expressed preferences of affordable home buyers and renters themselves, who often share the same partiality for yards, porches, courtyards, balconies, patios, picket fences, traditional styling, and "houses just like everybody else has." Repeating the mistakes made with public housing projects is likely to impede the appreciation of housing values for buyers of affordable homes, who are counting on building equity in their homes as their major—and perhaps only—long-term investment.

There is a history of planners and architects viewing commissions to design public and affordable housing as opportunities for experimentation with innovative site plans, floor layouts, styles, and materials. Affordable home *buyers*, in particular, aren't looking for stylistic experimentation so much as they are looking for homes

that don't *look* "affordable," that are not easily singled out from market-rate housing, and that inspire confidence as investments in their future.

The approach taken by Urban Design Associates (UDA), a firm with extensive experience in affordable housing projects, is to make the "simplest possible box for the house itself" in order to budget for good façades based on the "dimensions, proportions and details of what are considered the very best residential streets in the city" (Steuteville 2002, 10). It is less about style, which could never be reproduced with the same level of detail and quality of materials even if designers wanted to do so, than it is about massing, the types of windows, roof details, and encroachments (such as porches and balconies) that are characteristic of traditional housing in the local community. UDA projects such as Westbury (Portsmouth, Virginia), Park Duvalle (Louisville, Kentucky) (see figure 6.11), the Randolph Neighborhood (Richmond, Virginia), and Crawford Square (Pittsburgh) incorporate traditional housing types and traditional neighborhood planning to create attractive, affordable neighborhoods with a mix of subsidized, affordable, and market-rate rental and for-sale housing.

A similar approach was taken by the Chattanooga Neighorhood Enterprise, which in the early 1990s began developing affordable rental and homeownership units on vacant parcels in historic neighborhoods that had become troubled areas of the city. The Oak Hill project produced ten single-family homes, while the Orchard Village project added another forty-nine units of single-family houses that blend with the neighborhood's historic character. Two- and three-bedroom homes, ranging from 950 to 1,250 square feet, sold for $70,000 to $90,000. Another example is the Park Duvalle development in Louisville, which provided a range of subsidized and market-rate housing through a diverse mix of urban housing types.

Conflicts arise when the effort to make housing efficient and durable competes with the effort to make affordable homes comparable in quality and appearance to market-rate homes. In order to blend assisted housing with market-rate housing and older, traditional homes while using materials that are as durable and inexpensive as possible, architects are becoming more adept at using materials such as the concrete-based HardiPlank, which is extremely durable, has an appearance similar to that of clapboard siding, and can be painted any color. Even materials such as vinyl, typically eschewed for its artificial appearance and muted range of colors, has been blended with modest exterior wood details to create more contextual homes in projects such as the Ellen Wilson Homes in the Capitol Hill section of Washington, D.C. (see figure 6.12).

New affordable houses designed by Robert Orr, for a fifty-acre rehabilitation plan for the Pleasant Street neighborhood of Gainesville, Florida, had to meet special design standards for this historic neighborhood. A typical two-story, 1,400-square-foot infill house features traditional elements including eight-foot-deep wooden front porches, large eaves, wooden windows, and clapboard siding made of HardiPlank, which blends with the traditional character of the historic

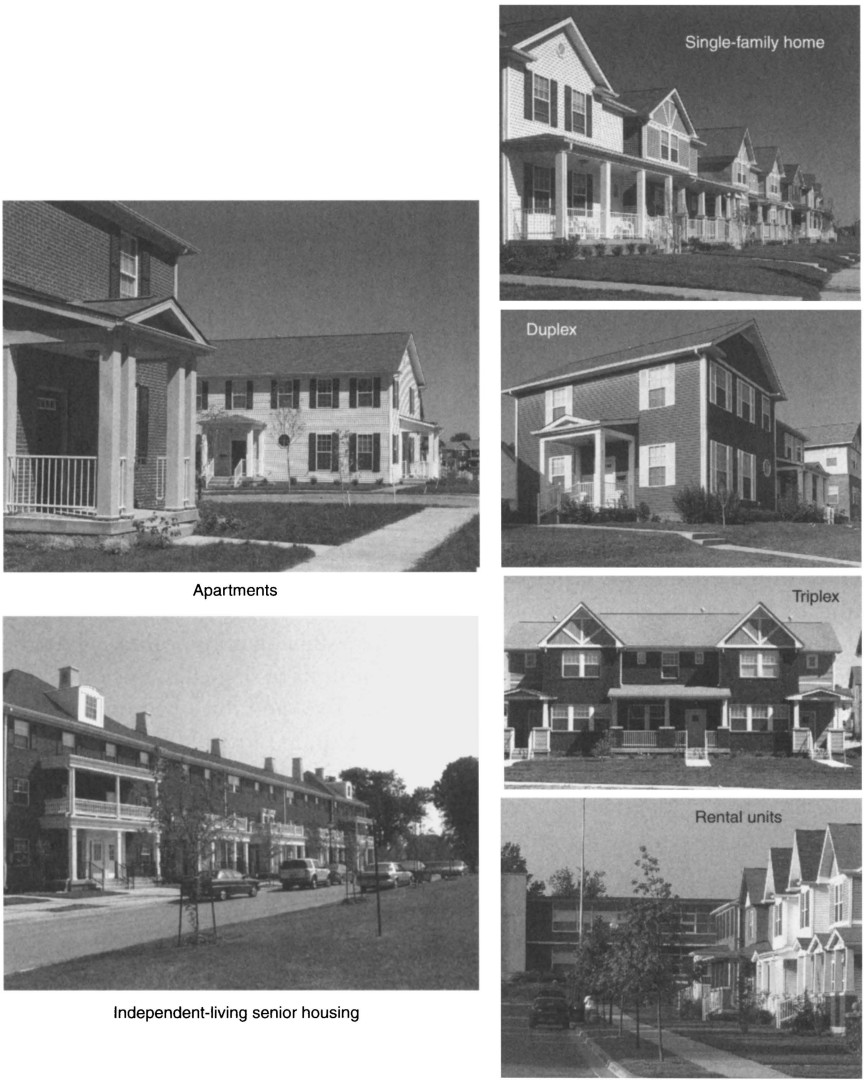

Figure 6.11. Housing types, Park Duvalle, Louisville, Kentucky. Courtesy of Urban Design Associates.

homes but costs less and lasts longer than wood siding. The traditional houses were built for $42 per square foot and sold for between $57,900 and $62,900. The city paid for the land and demolition costs, which reduced sale prices for the new homes by nearly $20,000 each (Steuteville 1999).

The challenge to rebuild housing, as well as entire neighborhoods and communities, in the wake of Hurricane Katrina is also generating creative approaches combining the simple floor plans, affordable materials, and cost efficiencies found

Figure 6.12. Ellen Wilson Homes, Capitol Hill, Washington, D.C. Author's photo.

in affordable and manufactured housing but with a stronger vernacular character reflecting that of the towns and cities of coastal Mississippi and Louisiana. The "Katrina cottage," designed by Marianne Cusato and presented to the 100,000 attendees at the 2006 International Builders Show in Orlando, Florida, advances a model home that can become a building block for permanent houses and neighborhoods as an alternative to the "FEMAvilles" comprising thousands of temporary trailer homes (see figure 6.13).

> Cusato's approach allows a family to purchase or build a small home they can live in until they can construct a larger one on the same lot. Then the cottage can become a guest house or a studio. Already Cusato and her colleagues are experimenting with configurations that allow such a design to become the first building block in a larger home plan or a family compound or even an entire neighborhood development. It's an approach that may elevate design standards for affordable housing as well as those for temporary emergency dwellings.

Figure 6.13. Katrina Cottage 1 (Mississippi Renewal). Courtesy of Sandy Sorlien.

> Despite its scale, nothing about Katrina Cottage 1 says "temporary." It honors Mississippi architectural traditions and insists on details—including built-in storage, six large windows, a pitched roof, and a full-size porch—that would never be considered for temporary emergency housing. Yet such high design can be produced at low cost, either on site through a variety of traditional building techniques or as manufactured housing. "There's no reason why small and affordable can't be beautiful, as well" says Cusato. (Business Wire 2006)

The adoption of traditional housing types is not an exercise in nostalgia; rather, it seeks to identify house types that have worked well in providing a range of housing choices in a traditional neighborhood setting which can be adapted to help meet today's affordable housing needs. There is a tremendous amount of variation on traditional housing types that is taking place, ranging far beyond what would be considered historical styles and influences. As Schwartz (1995) notes: "A return to fundamental principles of pre-WWII town planning . . . need not produce a simultaneous nostalgia about an architecture of pure historical quotation. Rather, housing must begin to address fundamental shifts in the way that it is produced, various approaches to the needs of different 'clients' must be considered, and a wide range of delivery systems and applications should be proposed."

Some of the most interesting examples can be found in the work of West Coast firms such as Solomon & Associates and Pyatok Architects. Solomon's work, in particular, is stylistically contemporary, typically involves very high densities in high-cost markets including the Bay Area and Southern California, and includes a mix of affordable and market-rate housing for renters and buyers (Bohl 2000). Pyatok's work includes an even broader range of affordable housing and involves contemporary housing designs with traditional references and elements such as courtyards, balconies, porches, and loggias.

Meeting the Coming Need: It's Not Just about the House

Efficiencies in layout and design, construction technologies, the reintroduction of a variety of urban housing types, and the revival of good place making principles that link the production of affordable housing to the creation of livable communities have all advanced the state of the art in affordable housing planning and design to a level not witnessed since the great era of civic art of a century ago. There still remain some significant shortcomings to be addressed before affordable housing can truly become engaged in broader community building efforts.

Too often the emphasis has been on unit production and cost control, with too little thought put into the broader context of how the home can help meet the everyday needs and contribute to the long-term prosperity of its residents and the stability of its neighborhood. In terms of affordable homeownership programs, the long-term prosperity of residents has typically been linked solely to the equity-building potential of owning a home. Ad hoc efforts are made to include low-income residents as construction laborers and contractors, connect residents with job-training programs, and get large employers to hire residents of low-income neighborhoods. More recently there have been efforts—still all too rare—to get affordable housing built as part of mixed-use neighborhoods with the potential for employment in retail and office portions of the neighborhood.

Pyatok (2000a) laments that technological fixes alone—such as the efficiencies wrought from standardized materials, prefab construction, and compact house forms—will not be enough to catch up with rising real estate costs. In addition to his advocacy for better planning of mixed-use, transit-oriented neighborhoods, Pyatok calls for the development of affordable housing models that allow for a variety of "home-grown entrepreneurial efforts."

The reemergence of the live-work unit, or "flex house," is perhaps the most important opportunity for expanding affordable housing options today. The flex house is flexible enough to accommodate a wide range of home-based businesses and adaptable enough to change as occupant families grow, shrink, and age (see figure 6.14). Yet it is also an innovation that is running headlong into conventional regulatory barriers of zoning, building codes, insurance, fire codes, and lending, all of

which have become biased against live-work arrangements. Such obstacles continue to frustrate the goal of creating opportunities for home-based businesses to blossom, including everything from "repairing appliances, making clothing, running catering businesses, manufacturing and assembling toys, dolls, or plaster figurines or providing all manner of services from hair and nail cosmetics to body-building training—all undertaken in the confines of the homestead" (Pyatok 2000a). One activity Pyatok does not mention that is perhaps one of the most common is car repair. It also happens to be one that highlights the potential conflicts between residential neighborhoods and some types of home-based enterprises.

Traditionally, the home itself has served a variety of income-producing roles for low- and moderate-income people, including rental income for accessory dwelling units and rooms that can help pay the owner's mortgage, and as settings for a wide variety of home-based businesses. These are important ways that homes can be used to supplement household incomes that are otherwise limited to the take-home pay of low-wage workers, wages that were incapable of purchasing market-rate housing to begin with. Unfortunately, the use of portions of homes for rental income and home-based businesses has been almost completely absent from designs for public and affordable housing for a century, due in large part to inflexible codes and regulations such as single-use zoning and subdivision regulations that

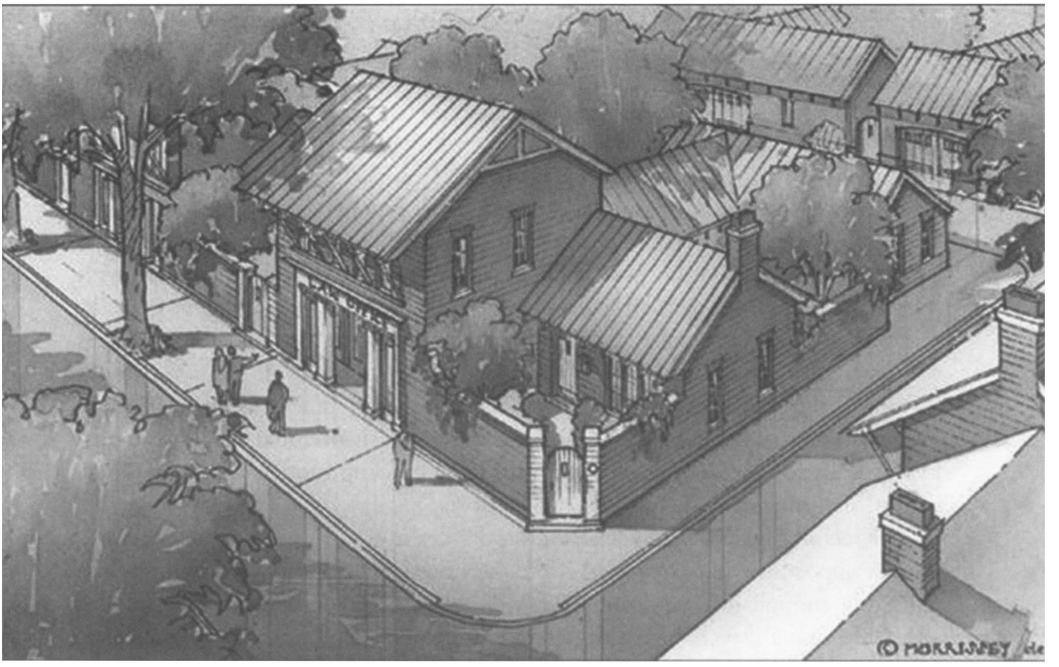

Figure 6.14. The Flex House. Courtesy of Michael Morrissey/Duany Plater-Zyberk.

grew out of nineteenth-century industrial conditions and twentieth-century suburban planning and design.

Pyatok (2000a) relates these income-producing roles of the home to the "homesteads" of farmers, immigrants, pioneers, and entrepreneurial urban underclasses in American history and emphasizes the need for more culturally sensitive and permissive codes and regulations for low- and moderate-income neighborhoods with a significant amount of affordable housing. Home-based businesses typically require ground-related units with front and rear entrances, and/or outdoor space in yards and alleys where messy car repair and other home-based commercial activities can be carried out. While mixed-income neighborhoods have become a clear goal for HUD and many local housing authorities throughout the United States, Christopher Alexander's notion of a city composed of a "mosaic of cultures" is consistent with Pyatok's position that culturally distinct neighborhoods may provide more opportunities for live-work arrangements that can support affordable homeownership.

Finally, affordable housing design must continue to become more flexible so homes can grow and adapt to owners' or residents' household size and need for home-based enterprise. The "Grow Home" is designed with a basement or second floor "left unfinished for buyers to complete according to their needs" (Steuteville 2001). The "Next Home," designed by Friedman and collaborators, a three-story townhome that can be used as a single home, duplex, or triplex, is wider than the Grow Home but "does not rely on load bearing walls, making it easy to modify floor plan" (Steuteville 2001). There is an element of monotony in many affordable housing neighborhoods, including assemblages of Grow Homes and townhomes in HOPE VI and other PHA and CD projects which lack the level of detail and craftsmanship that allowed many historic townhome neighborhoods to create a more distinctive appearance. It is a testament to the designs of Friedman and his collaborators that both the Grow Home and Next Home models are sold to a variety of market segments as both affordable and innovative. In addition to the flexibility and cost savings provided by unfinished rooms, attics, and basements, the opportunity to make garages optional or smaller is often an attractive way to help reduce the purchase price of a home.

To make great, eminently affordable housing for today's prospective homeowners, it will ultimately be necessary for most communities to throw out their existing regulations, which were written to create very different, sedate residential neighborhoods. The twenty-first century will require more flexible, mixed-use neighborhood regulations to unlock the potential for creating affordable housing in diverse neighborhoods. Such housing must be able to accommodate a wide range of home-based businesses and must be adaptable enough to change as its occupant homeowners and families grow, shrink, work, raise children, care for aging family members, and themselves age in the context of a home and a neighborhood—a place rather than a project.

7

The Use of Architectural Flexibility for Achieving Affordability in Housing

AVI FRIEDMAN

The evolution in the global economy has taken its toll both on world markets and on the lives of individual citizens. Government deficit reduction has led to cutbacks in social services and jobs; international trade agreements have created new sectors of employment in some countries and eradicated many jobs in others; recessions and sluggish economic growth have weakened the confidence of investors, employers, and everyday consumers; and the restructuring of numerous traditional arenas of commerce has resulted in unemployment for many who thought they were in secure positions. The very style, location, and definition of "work" have changed so dramatically that punching a clock or collecting a biweekly paycheck has become an archaic ritual.

In parallel, old homeownership models are weakening, including the traditional mortgage system, which requires the borrower to possess a long-term job—a basic form of security that many people no longer have. Rising costs for land and urban infrastructure justify the building of houses on smaller plots of land in denser communities, while financial insecurity on the part of the homeowners validates a need to purchase an affordable and compact housing unit and consider other paradigms for housing design and marketing.

For many first-time buyers, affordability is a major—if not the only—impediment to homeownership, since the relative cost of housing has doubled in recent decades (Filion and Bunting 1990). In a situation in which housing prices rise much more steeply than household earnings, purchasing a compact amount of space at a relatively low cost is a means of coping with the housing affordability crisis.[1]

1. The "affordability gap"—a much-used phrase with regard to contemporary housing—refers to a situation in which the rate of increase of shelter costs far outstrips the rate of increase

Under strained conditions—both global and personal—potential homeowners are finding that committing a smaller portion of their earnings to housing is a distinctly desirable, if not unavoidable, option. Therefore, buying unpartitioned and unfinished space, with the intention to upgrade and expand at a later date when finances permit, is another affordability strategy that was used in the past and is currently being considered by wary homeowners. An increasingly popular trend has been the opening of home renovation "supermarkets," where homeowners are able to select from a wide range of tools and products that are easy to use and install. It enables them to renovate and expand their homes, a trend that directly complements the idea of users' involvement in designing their units.

The new economic landscape has similarly led to dramatic demographic responses. Significantly, while the number of families and households in Canada is increasing, the size of these domestic arrangements is decreasing. This trend toward greater numbers of households is relevant not just to the family dynamic but to an additional noteworthy phenomenon: fewer people are living in families (Statistics Canada 2001).[2] One effect of these demographics is felt in the need for homes that are designed flexibly to reflect the changing nature of a diverse range of occupant groups. At the same time, baby boomers are continuing to have the largest impact on the age structure of the population. Inevitably, smaller numbers of young people will be "supporting" a greater number of older people, a prospect that creates incentives for the elderly to take active measures to safeguard against a precarious future of insufficient or nonexistent government pensions and shortages of suitable institutional care housing.

Furthermore, another household type that has gained in numbers over the years is the household composed of only one person. In previous years, young single people were not considered potential homebuyers. Nowadays, there are not only many young male and female singles who purchase homes on their own before marriage but also many who buy homes without the specific intention of marrying in the near future (Friedman 2001; Friedman and Krawitz 2002). Homebuilders who fail to market their products to single people are neglecting a considerable portion of first-time buyers, as are architects and planners who fail to design housing units and communities with single owners in mind. Flexible design strategies, whereby both traditional and nontraditional households may reside in the very same structure, need, therefore, to be considered.

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of income: in the United States during the 1980s, the median price of a new home rose by over 23 percent while median income went up by only 8 percent; gross rents increased by 14 percent while renters' income rose by only 5 percent.

2. In the United States, married couples with children make up less than one-quarter of all households, a significant drop from almost half in 1960. American Demographics, www.demographics.com.

These socioeconomic phenomena were the catalysts for the author's quest for a new housing paradigm, one that would foster a better fit between homebuyers and their chosen accommodation. The thrust of the approach was to regard the buying procedure as a process of selection from a menu. The author recognized that this choice and flexibility must be reflected in all aspects of housing design and marketing. It has to be factored into the composition of varied households within a single structure, the component choices available, and minimal inconvenience with respect to future modifications to facilitate changes in the occupant's space needs.

This approach stands in stark contrast to current practices of marketing homes whereby only a small number of options, primarily in interior layouts and finishes, are offered to buyers. Including a variety of prototypes—either single- or multifamily dwellings—within the same development, enabling buyers to purchase the amount of space they need and can afford, and permitting them to take part actively in the interior design of their home (e.g., choose kitchen types, locate partitions) is not common in today's housing market. A flexible approach to the design, construction, and marketing of dwellings can contribute to lowering the financial burden that buyers assume at the outset, thus making housing more affordable.

The purpose of this chapter is to present a historical review of ideas leading to this new paradigm which focus on adaptability and flexibility in affordable home design. It reviews ideas and their implementation in North America and Europe. In order to illustrate the approach further, the author introduces the Next Home, which was first built as a demonstration project and later adopted by private-sector builders. The chapter then draws conclusions about the potential of such ideas to contribute to making dwellings more affordable in North America.

Flexibility in Post–World War II North American Housing

Design for flexibility and for the evolving needs of occupants in dwellings has been attempted before. The return of millions of veterans to North America after the war and the ensuing baby boom of the 1940s and 1950s, coupled with the stagnant state of the housing industry as an aftereffect of the depression years, created a housing crisis of great magnitude. This crisis stimulated research into innovative design and building technology and resulted in the development of strategies appropriate to small, affordable, and adaptable homes (Wilson 1946). Prosperity in later years enabled buyers to afford larger homes, and the lack of a continuing pursuit of new technologies and forward-looking design ideas led to the abandonment of flexible building strategies. Examining and reflecting on various initiatives, ideas, and projects developed in North America were valuable steps in enabling the author to learn from past successes and errors and introduce strategies relevant to current housing conditions.

With the return of Second World War veterans, households that had placed their aspirations on hold during the period of wartime frugality began to search for housing with revitalized optimism and purpose. Homes, however, were nowhere to be found, as demand vastly outweighed supply. The magnitude of this shortage was further exacerbated by the 1946–1960 baby boom, which played a key role in dictating the type of housing on the market. There was also a severe shortage of supplies and materials for construction, initially brought about by the economic stagnation of the depression and further aggravated by wartime shortages of skilled labor. A second factor was the predicament of excessive overcrowding and the enforced communal living of family and non-family groups. By 1945 many homes situated in large cities were deemed severely substandard and in critical need of both exterior and interior repair. Basic amenities such as communal flush toilets and bathing facilities were significantly deficient.

In that same year numerous government departments were established in the United States and Canada as vehicles to alleviate this housing shortage. Radical transformations of the housing industry were undertaken as various levels of government launched economic proposals to quicken the pace of development. Not only did these departments help finance new developments, but also they established limits on the price and size of subsidized homes. Furthermore, these limits resulted in conformity to a conservative prototype. Paradoxically, these confining constraints had an implicit effect on design strategies. They compelled architects and builders to investigate and experiment with innovative cost-reduction strategies as well as to attempt to respond to the needs of the occupants with maximum efficiency while building to lower size standards. Essentially, stringent government regulations provided a foundation of affordability that established flexibility and adaptability as a criterion in the efficient planning of these homes (Eichler 1982).

In the postwar euphoria, both consumer demand and expectations were substantial, born of rejuvenated optimistic convictions. The public consensus placed high hopes on incorporating the latest in technology, planning, building, and labor-saving devices as critical elements of the design program. As a direct result of both price and design restrictions, architects were obliged to reorient their practices away from the traditional, ornate dream houses of the period that had preceded the disruption inflicted by the Second World War on North American society, and to satisfy the high demand and flagrant optimism of a new order. This impact was translated into functional, practical, economical, and adaptable solutions appropriate to the dynamic needs of a family home (Morrow and Creighton 1954).

The improved living environment essentially represented a reevaluation of the conventional housing form restrained by the demands of affordability. House designers and builders reexamined traditional approaches to interior design and introduced changes to some of the homes that were built in that era. Modifications implemented in this reevaluation resulted in the elimination of the traditional second story, staircase, dining room, extra bathroom, cellar, attic, stylistic

trimmings, millwork, and decorative shutters. Several strategies were employed to provide functional houses without compromising livability. These called for a reorganization of traditional house planning and embodied adaptability as a means to accommodate the present and future demands of the inhabitants. The living room was expanded to increase its flexibility as an all-purpose space. While maintaining its traditional role, the living room acquired the diverse functions of the study, dining room, parlor, and playroom. The kitchen was no longer relegated to the rear of the house but was integrated into this multifunctional living area. It was transformed into a pragmatic U-shaped work space equipped with practical appliances and gadgets. A low counter was the only division between the kitchen and living area, transforming the kitchen from its traditional service purpose into a practical, adaptable, and efficient utility space that not only accommodated culinary services but also enabled clear supervision of children playing and facilitated the serving of meals by being adjacent to the dining area (Wills 1945).

The scarcity of interior space and the dynamic needs of the family resulted in the reduction of fixed features such as walls which would instill rigidity in the plan and counteract the notion of adaptability that these homes embodied. The objective of maximizing the potential range of uses within a restricted amount of interior space was accomplished by presenting an open floor plan which allowed the occupants to define the space according to their specific requirements as opposed to the designer dictating the definition of the space. Rooms could be easily transformed as required with the implementation of innovative features such as sliding walls and movable partitions, which allowed privacy levels to be modified and rooms to be created or merged at the discretion of the residents ("Planning for Complete Flexibility" 1950). (See figure 7.1.)

The prime challenge to the designer in incorporating diverse functions in a small area was to maintain an ambience of spaciousness and counteract the impression of a small house. An emphasis on relating the house to its immediate surroundings was one such strategy commonly employed to instill the illusion of greater living expanses. Large plate glass windows and patio doors dissolved the confining impression of conventional walls and instead extended the perceived limits of the interior rooms into the exterior. Another strategy involved using drapery, accordion walls, or ceiling-high movable storage shelves as partitions. Consequently, the finite limits of the rooms were blurred, which cultivated an enhanced impression of larger interior space. The development of outdoor living at this time, however, was also the result of the quest for efficiency. While the use of well-designed outdoor rooms expanded the dimensions of the home, such spaces were also not subject to the constraints of government size regulations (Dean and Breines 1946).

It is evident that reducing size was not compatible with the postwar living environment. Living space was systematically and intensely subjected to a reevaluation process in order to identify the essential spatial requirements of a

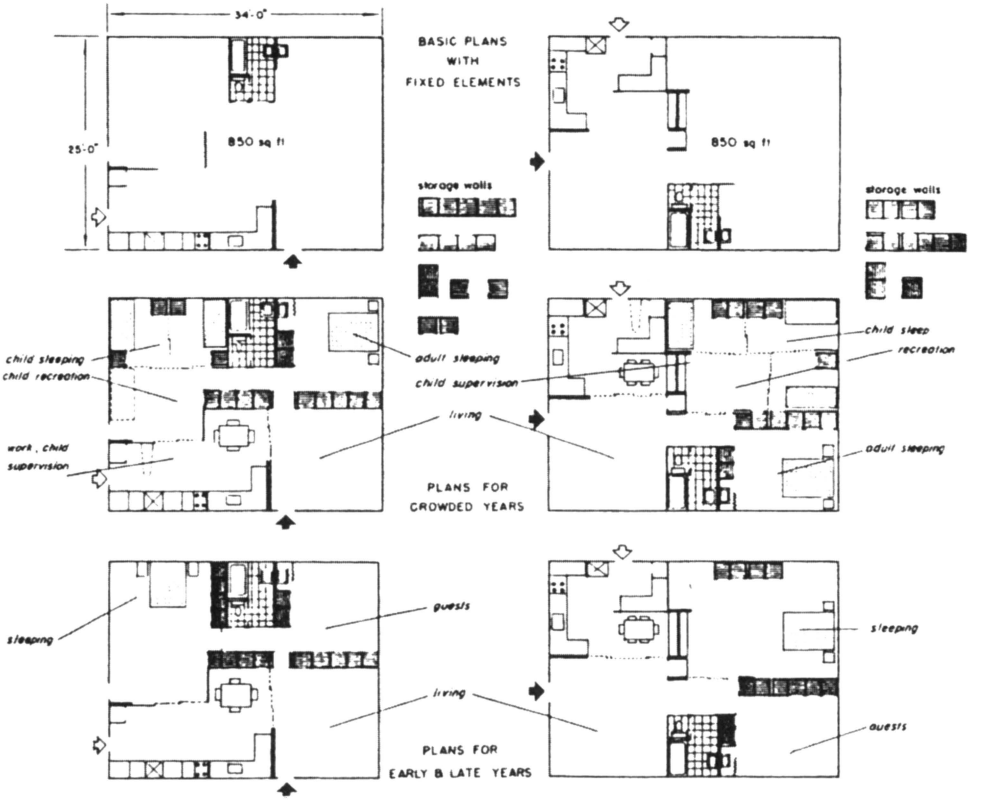


Figure 7.1. In 1950 the architect Haydn Philips designed a flexible plan intended to adapt to changing needs over time. Instead of fixed partitions, modular closets and folding partition walls are provided that can be arranged according to the particular needs of the users. Courtesy of the Architectural Forum, 1950.

small unit and maximize its adaptability. Despite the spatial limits, the majority of occupants wished to have more than the basic living room, kitchen, and two bedrooms. Therefore, designers were presented with the added challenge of overcoming the limits of the home's envelope and integrating the prospect of expansion to accommodate the flux of needs surrounding a maturing family. For many homeowners a small home represented a short-term housing solution, but in no way did it adequately satisfy any permanent objectives. In order to avoid the high cost of relocating, families began to examine lower-cost alternatives. In the interest of responding to these requirements, designers developed strategies both to allow for expansion within the original house and to facilitate easy addition. Designing for adaptability and expansion represented a considerable departure from the preconceived floor plans of traditional design

and emerged as an innovative strategy for increasing the suitability of a small home to the dynamic of the family by explicitly recognizing the potential for individuals to design and alter the living environment to cater to their evolving needs ("Redesigned" 1954).

Two types of homes were commonly built across North America during the period: wartime houses and small-lot housing. The wartime house was built during a period when land was cheap and plentiful, and therefore each unit was granted ample outdoor living space. Owners could add extra rooms in the rear of the dwelling without compromising their private outdoor space. Small-lot housing did not share this same adaptability to horizontal expansion; apart from vertical growth, there were very few options for expanding these homes. Furthermore, the square plan of the wartime home provided far more adaptability in the incorporation of additional rooms (figure 7.2).

Most wartime homes were adjusted over the years to meet the needs of each household. In making adaptations, the owners either needed to have some building skills of their own or had to contract professional renovators. Without such a commitment and investment, these homes, particularly the bungalow, could not adequately meet the changing needs of the household. The interior layout of the wartime house was modified primarily to accommodate the demand for more storage. The kitchen was the area where most renovations were made or desired, followed by the children's bedrooms. The coal shed in the rear was one of the most versatile areas in the wartime house in meeting the changing spatial needs of the household; it was generally adapted for use as additional living space. Storage problems were resolved by employing unused spaces in the home such as the hollow area beneath a staircase (Pantelopoulos and Friedman 1994).

As North America moved from the immediate postwar era into the prosperous 1950s and 1960s, the need for adaptable and expandable housing strategies subsided. Buyers had the means to afford larger homes, and builders were eager to provide them. Gradually, the expansion of lot sizes and housing standards eliminated the need to utilize small spaces efficiently. The building industry fell into a traditional conservative pattern in which a limited number of acceptable house types was the norm, and innovative ideas such as adaptability were regarded as unnecessary frills.

Flexibility and Adaptability in the Postwar Era: The European Experience

In Europe, the housing situation was different, and led to an innovative design approach that included flexibility and adaptability. After the devastation of the Second World War and the ensuing population expansion, housing activity in Europe was dominated by a high rate of production. In contrast to the North

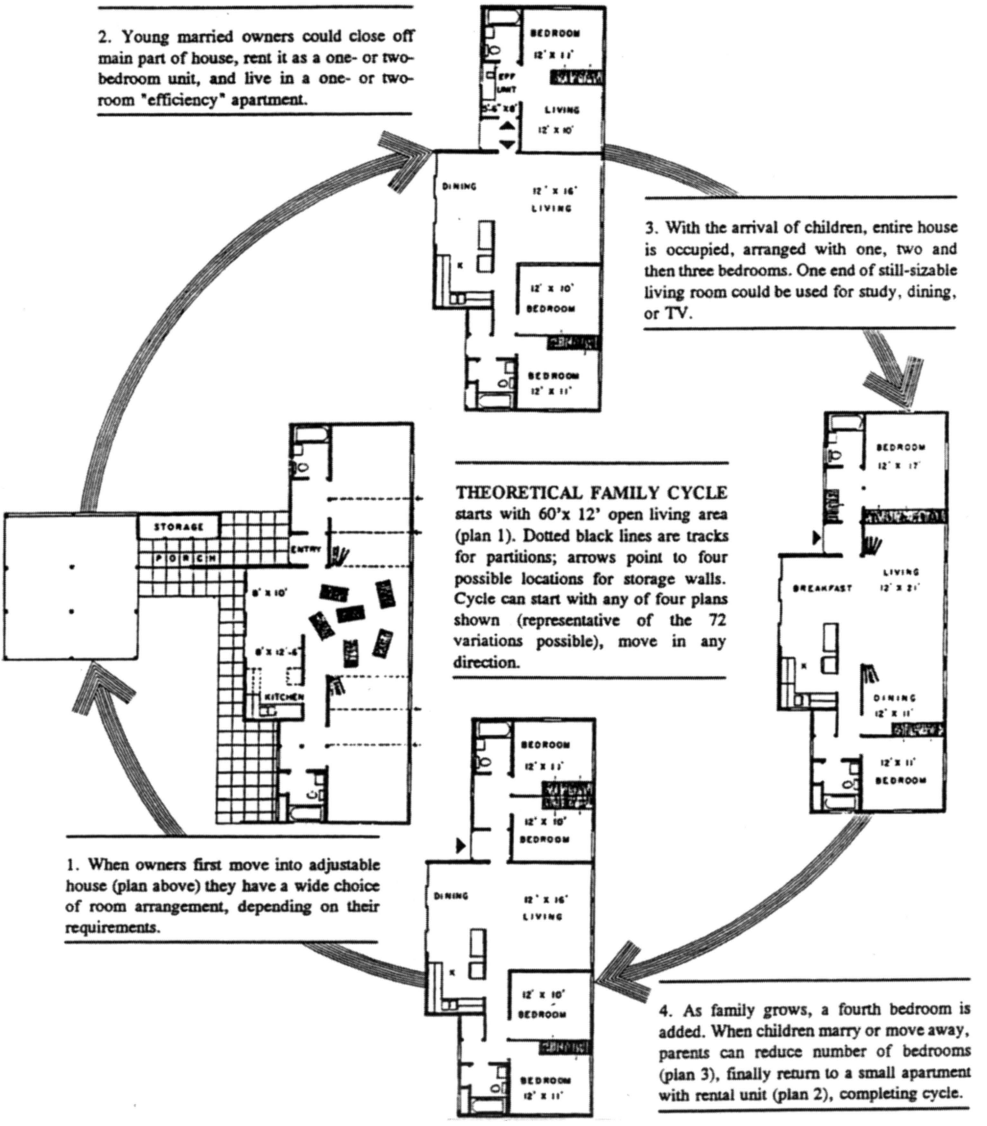


Figure 7.2. The focus of the 1952 Flexabilt Home in San Antonio, Texas, by Frank Robertson was on adding or subtracting rooms within the fixed perimeter of the original house. The single-family house allowed seventy-two variations on one floor plan, using movable closets and retractable walls that ran from floor to ceiling and that could be arranged by residents without carpentry. Courtesy of *House and Home*, 1952.

American dilemma, the European housing crisis included the added challenge of densely populated areas with a strong urban tradition of mid-rise, multiunit housing. In the postwar European scenario, individual dwelling units were clustered, resulting in a significant need for a more intricate interweaving of spaces and functions. European urban developments were typically mid-rise, high-density concrete structures, which were a direct contrast to the low-rise, low-density, wood-frame suburban housing projects of North America.

The design strategy of mass housing was conventionally based on a floor plan or unit plan that was simply repeated throughout the building (Habraken 1972). In a situation in which costs had to be minimized and government standards and codes followed, the basic floor plan was usually a compromise, the result of complex negotiations between architect, client, builder, structural engineer, and an array of other professionals. Architects, however, began to design the individual units as repetitive elements with the added capacity for adaptation and the ability to comply with the particular needs of the occupants. In an attempt to humanize the social housing being built, two concepts of flexibility evolved. The initial concept concerned *pre-occupancy flexibility,* in which developed units were adjusted to the occupants' lifestyles prior to their arrival. This was soon followed by *post-occupancy flexibility,* which enabled the occupants to modify the units upon moving in and throughout their residency.

The Hollabrunn project in Austria, which won a competition in 1971, offered maximum choice and scope for participation by the occupants while respecting cost limits and conventional technology. The problem stated by the competition, which was titled "Design without Information," called for more efficient design for future clients whose exact needs were unknown. This led to a general planning strategy for the design of a project characterized by open zones within a general support structure to accommodate occupant-chosen layouts of various types, sizes, and materials, including variable façade treatment (Dirisamer et al. 1976).

A system of zones and margins was implemented in the government-sponsored Primary Support Structure and Housing Assembly Kit (PSSHAK) project in England. The structural system employed in the project was based on a twelve-inch (30 cm) module between walls and a thickness of twelve inches (30 cm) for structural concrete walls. A variety of products and manufacturing companies were involved in this hierarchically organized project, with the internal component kits manufactured in Holland and installed by British contractors. The range of design variations chosen by the occupants reflected the needs of a cross-section of the population more faithfully than any attempt by traditional mass housing. Out of a total of forty-five dwelling units, only two or three were identical. In spite of its relatively small size, the project demonstrated an economic and architectural realization of the occupants' continuous intervention with the home in initial and progressive stages of development. Pre-occupancy participation in PSSHAK showed that it was possible for future occupants to discuss their needs

and expectations with the architects during the design stages of a scheme (Ravetz 1980).

Design for flexibility experienced relative success in the European housing market as a result of several advantages, including comprehensive political motivation, active government intervention through the initiation of national competitions, and subsidy of housing projects. Furthermore, lower rates of residential mobility encouraged continuous intervention of householders in the design of their dwellings. Modular coordination was another pertinent variable characteristic of adaptable developments. In many instances, however, technical complexity deterred occupants from maximizing the full potential of such components.

In the Next Home research and design, the author reviewed principles and lessons learned in the postwar era in North America and Europe and applied them to current practice. A description of the Next Home design process follows.

The Next Home: Flexibility and Cost Reduction

One of the fundamental distinguishing features of the Next Home was the option extended to prospective buyers of purchasing the type and "quantity" of house they needed and could afford (figures 7.3 and 7.4). The feasibility of this option was attained by designing a three-story structure that can be built, sold, and inhabited as a single-family house, a duplex, or a triplex at a construction cost of $26 per square foot ($380 CAN per square meter). The interior of the units can also be configured according to the wishes of the occupants. Some, as noted in figure 7.5, may choose to have a home office as part of their unit.

With diligent planning and selection of materials, the same principle was implemented to accommodate interior finishes such as drywall and floor tiles. Furthermore, cost savings were achieved not only through efficient use of materials but also through reduced labor requirements as a result of less on-site cutting and fitting (Canada Mortgage and Housing Corporation 1995). The flexible choice of interior components combined with the efficient design reduced the cost of each 750 square feet (75 square meters) of floor to an average of $37,000 ($50,000 CAN), including serviced land at a cost of $7.50 per square foot ($108 CAN per square meter) in Montreal.

The Next Home was designed to be subdivided and rearranged in both the pre- and post-occupancy stages in order to accommodate change from one housing type to another with minimal inconvenience and cost. In order to facilitate future transformation of the dwelling units and to maximize the impression of open space, the stairs were placed along the longitudinal side wall in the middle of the unit and adjacent to the front entrance. By positioning the stairs lengthwise against the side wall, the available floor space was more efficiently increased (figure 7.6).

Another characteristic of the dynamic and flexible design was the confining of the mechanical systems to a vertical shaft and horizontal chaser. The vertical

Figures 7.3. The Next Home. Full-scale prototype constructed on the campus of McGill University. Author's photo.

shaft enclosed the water supply, drainage, venting (including the heat recovery ventilator, or HRV), as well as electrical, telephone, and cable. The horizontal chaser, installed to run the length of each floor, facilitated future relocation of rooms. Such an arrangement of chasers permits access to the building systems through the floor—rather than the ceiling or the walls—thus enabling all changes to be made without disrupting the neighboring units. Consequently, regardless of the initial configuration of a Next Home design, the household and its evolving nature are accommodated with minimal renovation work and

Figure 7.4. The Next Home is designed as a three-story structure that can be easily configured by its occupants as a single-family house, duplex, or triplex. Author's photo (of rear façade).

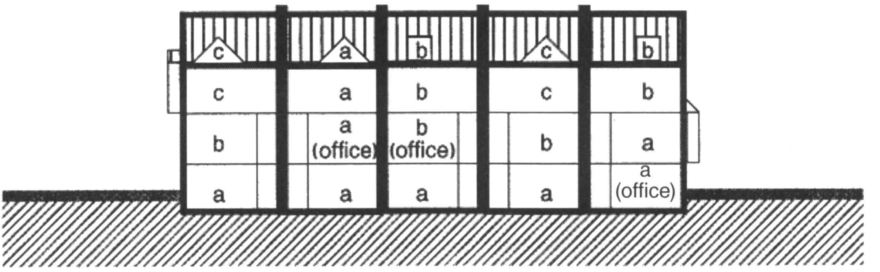
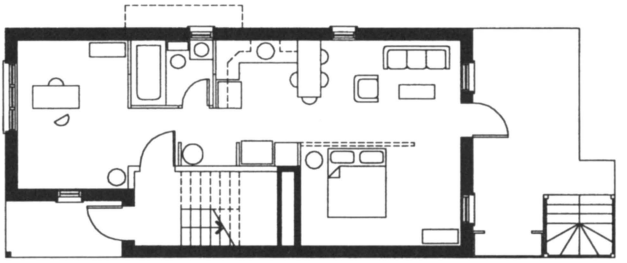
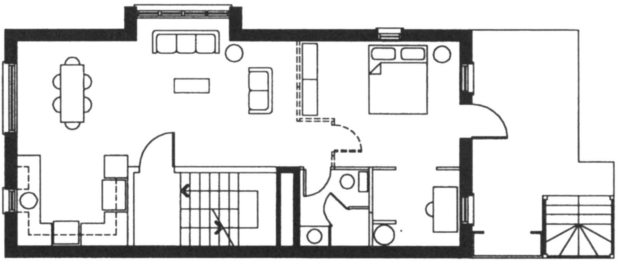


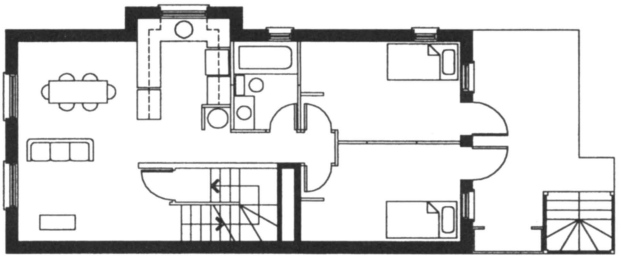
Figure 7.5. Subdivision and volume options for Next Home units. Letters indicate ways of allocating space to one, two, or three households, including room for a home office.

The owner of the ground-floor unit is a widower, age 57, who has worked as a civil servant for many years and has been offered an early retirement package due to budget cuts.



The owners of the second-floor unit are a young couple without children who have been married for three years and who, until the purchase of their Next Home unit, rented a one-bedroom apartment in a suburb not far from the city center.





The owner of the unit on the third floor and the mezzanine at the top of the house is a single mother, age 41, with two school-age children.

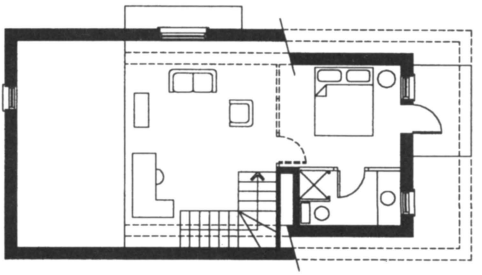


Figure 7.6. Demonstration unit plans. The stairs were placed along the side wall, leaving the floor space open.

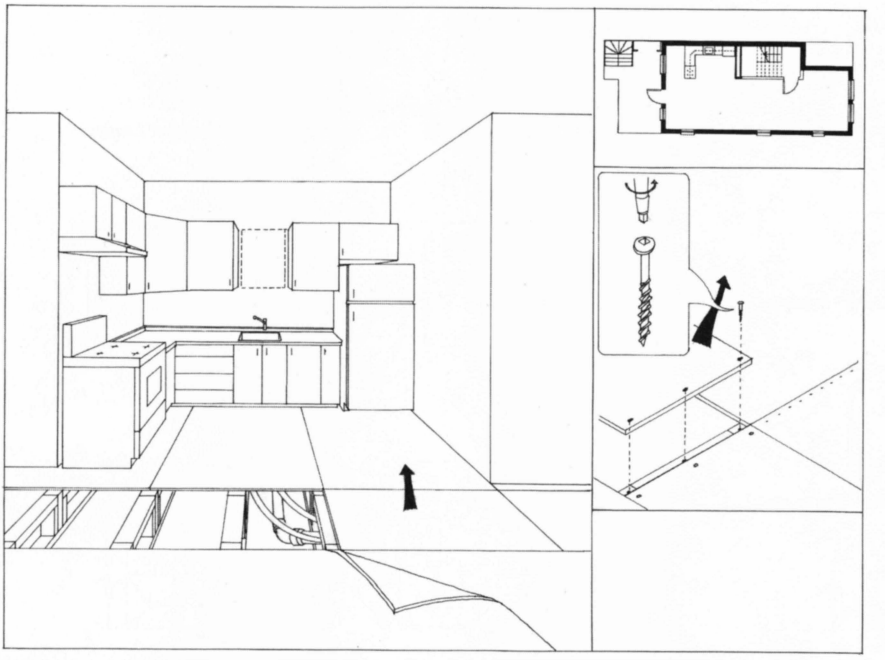


Figure 7.7. Post-occupancy modifications are facilitated by flexible floor joists.

expense (figure 7.7). In the interest of responding to today's diverse demographics, lifestyles, and economic capabilities of buyers, the Next Home included a menu of pre-occupancy choices. Prospective occupants choose from a catalogue of interior components designed by an architect, determined and made available by the builder (figure 7.8). User choice enables occupants to "consume" only the type and quantity of features they currently require or can afford. These options also include a range of components to assist physically challenged occupants to live independently.

The pre-occupancy flexibility and the capacity for post-occupancy modification of the Next Home have inspired the design of a variety of kitchen layouts to suit a wide range of household configurations. These kitchen arrangements cater to desires for increased work surfaces, space economy, and the inclusion of washer, dryer, and recycling facilities within this area (Friedman et al. 1993). Moreover, due to the prefabricated nature of kitchen cabinetry, builders can offer a wide selection of layouts without significantly increasing the administrative costs incurred by allowing these choices.

Similarly, bathroom choices also vary according to the occupants' individual needs. Living in a small home does not mean being restricted to a single

Interior Partitions	($)
305mm (2') in length:	22
610mm (4') in length:	44
610mm (4') in length with door:	100

Kitchen Layouts	($)
Cabinets in	
Oak:	1736
Melamine:	1162
Cabinets in	
Oak:	2976
Melamine:	1992
Cabinets in	
Oak:	2852
Melamine:	1909
Cabinets in	
Oak:	3224
Melamine:	2158

Bathroom Layouts	($)
	1410
	985
	1084
	1785

Floor Finishes	
Ground Floor	
Carpet:	1330
Hardwood:	5056
Laminated wood:	3344
Linoleum:	3430
Tile (in bathroom):	472
Second Floor	
Carpet:	1427
Hardwood:	5424
Laminated wood:	3588
Linoleum:	3680
Tile (in bathroom):	472
Third Floor and mezzanine	
Carpet:	2004
Hardwood:	7621
Laminated wood:	5041
Linoleum:	5170
Tile (in bathrooms):	854

Figure 7.8. Menu of interior elements and their 1996 costs in Canadian dollars.

bathroom: if the number of occupants and their schedules justify a second bathroom, one can be included. Consequently, the bathroom options offered by the Next Home builders range in size from powder rooms to complete bathrooms with shower, bath, toilet, and sink.

An analysis of the layouts of the three units of the Next Home demonstration house, which was displayed on the McGill University campus, illustrates the manner in which various pre-occupancy selections of interior components formed three highly personalized, versatile living spaces. Household scenarios have been created for the three units in order to account for choices made at the pre-occupancy design stage of each unit and to illustrate the potential inherent in such flexibility (figure 7.6).

The twenty-by-forty-foot (6.1 × 12.2 m) module also allows for flexibility with regard to a variety of building configurations. The Next Home provides planners and builders with the ability to incorporate three housing types within a single community in order to respond to a diverse range of values, incomes, and household types. The increased density that results from building in rows contributes to a livelier public realm and a more structured streetscape, amplifying the viability of commercial and office uses of the ground-floor units as well as animated semi-public and public open spaces (Cooper and Sarkissian 1986).

The notion of flexibility is further extended to the character of the development by introducing neighborhoods of mixed activities. The segregation of uses common to most postwar suburbs (i.e., housing separated from commercial zones) no longer serves the needs of city dwellers, nor does it contribute to an integrated urban fabric (Rios 1995). New communications technologies that have facilitated the growth of home offices and the desire of many people to shop within walking distance of their residences are strong incentives for mixed-use design. The Next Home concept aims to revive such traditional development models while updating them to comply with contemporary and future economic needs of their inhabitants (Gurstein 1995).

Application of the Next Home Concept

The Next Home concept was implemented in the design and construction of several communities in the greater Montreal area. The builders' main objective, though different at each site, was to take advantage of the flexibility of the design and urban planning. Attracting a variety of households with a range of socioeconomic backgrounds was meant to expand the builders' profit opportunities. In collaboration with the author, the builders adapted the principles of the demonstration unit to their site according to their specific marketing needs. Affordability through flexibility remained a key factor in all the built projects. The units were sold at an average cost of $48,000 ($65,000 CAN) per eight hundred square feet of floor area, a price equivalent to 50 percent of the median price in the Montreal area. The sites were

all infill, and the projects benefited from existing infrastructure and access to civic amenities. Descriptions of three of the projects' main features follow.

Le Faubourg du Cerf is a 130–unit project in Longueuil, a suburban town near Montreal. In 1998 the builder, Cleary Construction, sold each floor for $44,000 ($59,900 CAN) in a relatively affluent area of town. The structures faced a communal green space and were built without basements. The outdoor parking was designed at a ratio of one parking space per unit (figures 7.9 and 7.10).

Units of two dimensions were designed in the three-story structure and mezzanine: twenty by thirty-seven feet (6.15 × 11.6 m) and twenty-five by forty-three feet (7.7 × 13.2 m). This led to the creation of a floor plan with an average footprint of eight hundred square feet (80 sq. m). The developer offered the option to purchase one, two, or all three floors of the building as was proposed in the original concept. He subsequently commented in a conversation with the author that buyers like the flexibility offered to them, which became a significant draw for clients with smaller means. This was demonstrated by the large number of single-story units sold compared to two- or three-story units, which enabled many young households to become homeowners.

Figure 7.9. A Next Home development including variations of a typical module as detached, semidetached, and row housing units.

Figure 7.10. Le Faubourg Du Cerf project in Longueuil, Quebec.

As part of the marketing process, the developer constructed a temporary sales office near the site. In it there was a display of drawn floor plans and scale models of possible interior layout options. In addition to pre-conceived designs, the developer permitted interested buyers to participate in the design of their chosen floor. His firm's technicians assisted these clients for a modest administrative fee. The offered unit and those designed by the occupants demonstrate a wide variety of interior arrangements. Some of the units have one bedroom and others two. There is also variety in the interior components (e.g., kitchens, bathrooms) chosen by the occupants and in the placement of these components on the floor. The choices made and their location was an outcome of the household's demographic composition, lifestyle, and affordability constraints.

The other two projects were constructed between the years 1998 and 2000 by the same builder, Anobid Construction, a small firm based in Montreal. They were infill urban projects which were aimed primarily at attracting those who wished to live in proximity to work and enjoy the amenities that urban living has to offer. The developer worked closely with the author, and his approach to the

marketing and the design of the units was highly flexible. He referred to the sales process as a "one-on-one" relationship. The developer sat with each homebuyer for several hours. He also maintained that buyers do not mind paying an extra modest administrative fee as long as they are given choices and attention is paid to their special needs. It increases the occupant's overall satisfaction with the project, he commented.

In these two projects the firm's marketing material reads like a restaurant menu, with a wide variety of choices, ranging from fireplaces to kitchen and bathroom layouts. The floor arrangement of the eleven structures in the Sainte-Antoine project is an outstanding example of Next Home principles. Each "slice" of the row was subdivided differently. Single-family units on its three floors were constructed next to a two-family structure and a three-family building. In one of the two-family buildings, a homeowner rented one of two purchased floors to a student. Parking for some of the units is outdoors at the rear, and for others it is indoors on the ground floor. The developer also offered a choice of balcony at the rear yet maintained a fairly consistent front façade (figure 7.11).

Figure 7.11. Façade of the Carré Saint-Antoine project. Author's photo.

Figure 7.12. Plan options in the Faubourg Saint-Michel project.

The Saint-Michel project consisted of eleven structures that were ultimately divided into twenty-five units of different interior configurations. The width of the structure is twenty feet (2.1 m), and the length is forty feet (12 m). Here, two choices were offered to homebuyers. They could select the number of floors they wished to buy and the interior components they wanted in them (figure 7.12).

As was conceived originally, the clientele was very diversified, and since the houses were not constructed until they were sold, the buyers were able to adapt them to their space needs, lifestyles, and budgets. The one- or two-story units were sold for between $45,000 and $95,000 ($60,000 and $130,000 CAN), while the cost of the complete building, including a garage on the ground floor, was around $105,000 ($145,000 CAN).

The open plan and flexible space also permitted the developers to respond to specific housing demands. For example, in one of the buildings, the owners of the third floor and the ground floor shared the area of the middle floor.

Conclusion

Providing North Americans with access to affordable housing will require adopting a range of strategies. Some have to do with policy, while others involve design. Another type of solution combines policy and design aspects. Design for flexibility and adaptability is an outcome of such an approach. Altering development standards to permit higher density and offer buyers the option to purchase only the amount of space they need and can afford can become a paradigm that attempts to create a new product through public-private sector partnerships.

Design for flexibility was attempted in North America and Europe in the post–World War II era with varying success. Experience gained from these attempts has been used by the author in the development of a new housing prototype. Through the Next Home's design principles, the author attempted to acknowledge the economic and demographic pressures currently facing homebuyers. Builders need to consider contemporary households with their diverse interior design needs and affordability constraints. The narrow width, which reduces the amount of valuable serviced land, the efficient design, and the flexible choice of interior components of the Next Home combined to reduce the cost of construction to $26 per square foot ($380 CAN per sq. m).

The assessment of the application of the Next Home principles in building sites demonstrated that they responded to the two underlying complementary objectives: affordability and flexibility. Although the builders had to invest more time in the marketing process, buyers were willing to pay the small administrative

cost in return for having their choices built in. It is no doubt a change from current approaches to homebuilding and marketing. The flexible, affordable, and sustainable design principles of the Next Home respond sensitively to the urgent need to accommodate a wide diversity of contemporary users and household types and to extend affordability to a broader portion of the population.

The author wishes to thank Matérieux Cascades, Société d' Habitation du Québec, and Canada Mortgage and Housing Corporation for their sponsorship of the research and construction. He also thanks David Krawitz, Cyrus M. Bilimoria, Jasmin S. Fréchette, and Doug Raphael for their contribution to the ideas expressed in this chapter and the building of the demonstration unit.

PART IV

Economic Perspectives

One of the most compelling arguments for expanding homeownership opportunities to low- and moderate-income families is its wealth-producing potential. Statistics on the average wealth of homeowning versus non-homeowning American households show an enormous difference in favor of homeowners, while other statistics indicate that a very large percentage of the wealth of homeowning households is in the form of home equity.

The wealth-generating impact of homeownership is largely due to the U.S. mortgage system, which offers a unique opportunity to purchase a house with a cash investment worth only a small fraction of the value of that house. Yet homebuyers are able to retain the full value of any appreciation. A down payment of $5,000, for example, is often enough to purchase a house worth $100,000. If that house appreciates at 5 percent a year, which is not unusual in many markets, it would be worth $105,000 after just one year. Ignoring for the moment the costs associated with the closing and with maintaining the house, this represents a 100 percent return on initial investment. Even including the costs of buying and maintaining a home, the highly leveraged nature of homebuying often results in investment returns that are well above those from alternative investments, while at the same time providing the practical benefit of a place to live.

Experience teaches us, however, that not everyone accrues wealth through homeownership. Like any other commodity, homes can go up or down in value. Housing appreciation rates have been found to vary significantly over time, among local markets, and across groups of owners. In some local housing markets, episodes of price depreciation have been long and extreme. In these circumstances homeowners may be trapped in areas where they would rather not live or, if they have to sell, lose their original investment plus some. When faced with this prospect, some homeowners will default on their mortgage, which ruins

their credit rating for years to come. These outcomes are particularly devastating to lower-income households, since they typically must invest almost all of their savings in buying a home.

Thus, for those involved in promoting affordable homeownership, it is important for low-income buyers to understand the frequency with which ownership does not lead to wealth creation so that they can make informed decisions. Low-income buyers should understand that not all homebuyers make money on their homes. It is also important to understand the factors that determine financial returns so that policymakers, lenders, and housing counselors can work to maximize the likelihood that homeownership will indeed lead to wealth creation as opposed to financial ruin.

Both chapters in this section address the wealth-building potential of homeownership. In chapter 8, Michael Stegman, Roberto Quercia, and Walter Davis estimate the change in both housing and equity values for a large sample of buyers of affordable homes. Their analysis suggests that a very large percentage of the low-income homebuyers in the sample did see a substantial increase in home equity in recent years. Their study covers a relatively narrow period of time, however, when historically low interest rates contributed to unusually high rates of appreciation in most housing markets. In chapter 9, Eric Belsky, Nicolas Retsinas, and Mark Duda provide a somewhat less sanguine analysis of the economic benefits of homeownership. Their simulation covers a broader time frame than the previous chapter and compares the returns of homeownership to those of renting and investing the down payments in alternate ways. This analysis suggests that many low-income owners would have been better off renting. This was particularly true when homeowners had high-interest-rate loans, were unable to deduct their mortgage interest payments from their taxes, sold their homes sooner, or did not refinance when interest rates dropped. Their findings lead to a number of policy recommendations designed to help more low-income buyers accrue wealth through homeownership.

8

The Wealth-Creating Potential of Homeownership

A Preliminary Assessment of Price Appreciation among Low-Income Homebuyers

MICHAEL A. STEGMAN, ROBERTO G. QUERCIA, and WALTER DAVIS

Home equity is a significant source of household wealth, especially for those in the lower reaches of the income distribution (Belsky and Calder 2004, 14). This is why consumer advocates and policymakers celebrated the achievement of a record number of homeowners during the 1990s (Bureau of the Census 2002, table 15). Despite a declining economy that dipped briefly into recession in 2000–2001, historically low interest rates propelled the national homeownership rate to a record high 67.4 percent in 2002, with impressive gains by low- and moderate-income families, minorities, and nontraditional households. Between 1993 and 1997, for example, the number of home loans to families with incomes at or below 80 percent of the median increased by 38 percent, compared with 27 percent for loans to higher-income families (Quercia, McCarthy, and Wachter 2003). For a roughly similar period (1994–2001), minorities accounted for 40 percent of the national net gain in homeowners, even though they constitute just 25 percent of all households (Joint Center for Housing Studies 2002, 14). Similarly, between 1997 and 2002—when the homeownership rate for all households increased by 3 percent—householders under age twenty-five enjoyed a 30 percent increase, including a 58 percent gain for families headed by females under twenty-five (Bureau of the Census 2002, table 15).

In addition to historically low interest rates, growth among these latter groups was accelerated by an aggressively supportive public policy environment that

contributed to the widespread introduction of "affordable" mortgage products during the latter part of the 1990s, featuring flexible underwriting—including low down payments, higher debt ratios, and reduced cash reserves—combined with the use of nontraditional means of verifying creditworthiness (Quercia et al. 2002, 352). For example, home purchase loans requiring down payments of 5 percent or less were nearly four times (15 percent) more common in 2001 than in 1990 (4 percent) (Joint Center for Housing Studies 2002, 18). Freddie Mac's "Alt 97" mortgage, which is targeted to buyers with little savings but good credit, features 3 percent down, with only part of the up-front cash having to come from the borrower's own resources.[1] Underscoring the potential impact of these new mortgage products, Quercia, McCarthy, and Wachter (2003, 29) estimate that the "Alt 97" mortgage increased "the relative probability of homeownership for young households by 27.1 percent, for black households by 21 percent, and for center city households by 15 percent."

While homeownership is not just about building wealth, because of its significant potential to generate large returns on small amounts of invested capital, its role in helping families secure their financial futures is too important to ignore (Belsky and Calder 2004, 8). Using data from the Panel Study of Income Dynamics, Di, Yang, and Liu (2003, 12), for example, estimated that "the total net wealth on average in 1999 of owners in 1984 is 2.2 times that of renters in 1984, controlling for incomes and demographics."

Despite these dramatic findings, other researchers are less positively disposed toward housing as an investment good. For the period 1985–1995, Goodman, for example, found that "when all the costs of owning and renting are considered, a majority of families that bought a home in the mid-1980s would have saved money by renting comparable housing" (cited in Di, Yang, and Liu 2003, 6). Goetzmann and Spiegel found home appreciation rates from 1990 to 1999 to be much lower than the returns on alternative investments such as stocks, bonds, and mortgage-backed securities (cited in Di, Yang, and Liu 2003, 6). From a portfolio analysis perspective, Hurst, Luoh, and Stafford found that the share of wealth a household held in home equity in 1984 had a negative relationship to total wealth in 1994, but that the share held in stocks had a positive relationship (cited in Belsky and Calder 2004, 8). For a similar period, but using different metrics, Marjammaa found that "the average stockholder earned $23,000 in the stock market during the past decade, while the average homeowner earned $44,000 in home equity" (cited in Di, Yang, and Liu 2003, 4).

Although nominal home prices have never declined on a year-to-year basis since the National Association of Realtors began tracking sales data in 1968, Di, Yang, and Liu (2003, 3) remind us that "national measures of home price appreciation

1. Fannie Mae's "Flexible 100" mortgage allows for no down payment but does require a contribution of 3 percent to the closing costs.

have little practical meaning to an individual homeowner because he invests in a single asset instead of a national index, and this asset cannot be diversified."

Dueling researchers and conflicting findings notwithstanding, Americans have historically held an enormous amount of their collective wealth—a staggering $7.6 trillion in 2002—in their homes. For all households, home equity accounts for an average of 21 percent of net household wealth—but for all homeowners the share is close to 50 percent. The relative importance of housing in household portfolios has grown considerably since the high-tech meltdown in 2001, when stock portfolios lost $1.4 trillion in value (Joint Center for Housing Studies 2003, 6). With housing outperforming the rest of the economy, home equity grew by more than $405 billion in 2001–2002, raising the share of "stock-holding homeowners with more home equity than stock wealth from 60.5 percent in 2001 to an estimated 66 percent in 2002" (Joint Center for Housing Studies 2003, 6).

Home equity has been especially important for those with lower incomes: the median net wealth of owners in the lowest income quintile was $68,000 in 2001, while that of similarly situated renters was only $500 (Joint Center for Housing Studies 2003, 7). Among these owners, home equity accounted for 80 percent of net wealth in 2001, compared to 48 percent for owners in the middle quintile and 26 percent in the highest quintile (Belsky and Calder 2004, 14). "For all homeowners, home equity represented 42% of their net wealth. But for lower income and minority households, home equity represented four-fifths (80%) of their net wealth. And for moderate-income, African American, and Hispanic households, home equity represented more than one-half of their net wealth," reports the Consumer Federation of America (2003, 2).

Despite the importance of home equity to net household wealth, Case and Marynchenko (2002, 255) remind us of the significance of where and when in the local real estate cycle a family enters the market. In their studies of low-income homeowners in Chicago, Boston, and Los Angeles, these researchers found homeownership to be "an excellent vehicle for asset accumulation since the early 1980s in Boston, since 1987 in Chicago, and since 1995 in all three cities. They also found, however, that significant periods of decline have led to substantial losses for low-income households in Boston and to periods of substantial negative equity for low-income households in Los Angeles." This is why, for example, McCarthy, Van Zandt, and Rohe conclude that "homeownership offers much better financial security for wealthy owners than for low- and moderate-income and minority owners" partly because "lower-income and minority households hold more housing than is optimal in portfolio wealth, exposing them to higher risk" (cited in Di, Yang, and Liu 2003, 7).

This chapter describes the asset-building potential of house price appreciation in an innovative homeownership partnership that has helped make homeownership possible for more than 25,000 creditworthy low-income, low-wealth

individuals who may not be effectively served by the conventional market. Through access to the proprietary valuation model that the Federal National Mortgage Association (Fannie Mae) uses to value the homes securing its mortgage portfolio, we are able to estimate the paper equity accrued by thousands of families who have bought homes under a demonstration program launched by Fannie Mae and the Self-Help Credit Union, a North Carolina–based community development financial institution.

First, we describe the Community Advantage Secondary Market Demonstration Program (CAP). Next, we set the stage for an empirical analysis by reviewing the literature on the wealth-building potential of homeownership, with particular emphasis on lower-income families. Our estimates of the paper equity accumulated by CAP homeowners are disaggregated by household type, race and ethnicity, and credit history, and are benchmarked against statewide appreciation rates and metropolitan price changes in individual housing markets in which there has been sufficient CAP activity. We conclude with a discussion of the policy significance of our findings.

The Community Advantage Secondary Market Demonstration Program (CAP)

The goal of CAP is to provide tangible evidence to lenders, policymakers, and the secondary mortgage market that low-wealth borrowers are "bankable," and that Fannie Mae—and, by implication, the Federal Home Loan Mortgage Corporation, or Freddie Mac—can significantly expand their purchase of affordable housing loans without compromising either their balance sheet or safety and soundness concerns.[2] With a Ford Foundation grant to underwrite a significant portion of the credit risk, the Center for Community Self-Help in North Carolina purchases affordable mortgages such as Community Reinvestment Act loans from participating lenders and sells them to Fannie Mae while retaining full recourse (essentially guaranteeing the loans), which satisfies Fannie Mae's charter issues and balance-sheet concerns. These loans could not otherwise be readily sold in the secondary market because of their perceived high risks. CAP mortgage products feature flexible underwriting, typically including one or more of the following features: low or no down payments, higher debt-to-income ratios, approval of borrowers with spotty credit records or no established credit, and waivers of private mortgage insurance and the usual requirement that a borrower have cash reserves covering at least two months of loan payments available at the time of closing.

2. In 2002, nationwide foreclosure rates were 1.15 percent for all loan types. They ranged from a low of 0.51 percent for conventional loans to a high of 2.46 percent for FHA-insured loans (National Association of Realtors 2003).

Participating banks and thrifts originate and service the loans under contract with Self-Help. Though not quite national in scope, CAP's geographic reach is impressive, with the twenty-six participating lenders testing innovative loan products in forty-seven states and the District of Columbia. Because the program originated in Self-Help's home state, North Carolina lenders have originated 34 percent of all CAP loans, with lenders in California accounting for 18 percent and those in South Carolina coming in a distant third at 5 percent (figure 8.1). Virginia, Ohio, and Oklahoma each account for about 4 percent of all loans in our 1998–2002 samples. While approximately 20 percent of the borrowers live in non-metropolitan areas, there are twenty-one Metropolitan Statistical Areas (MSA) in which lenders collectively originated at least two hundred loans.

The data used in this chapter were collected as part of the authors' multiyear evaluation of CAP. The goals of the evaluation are to assess the replicability of the CAP model, the performance of more than a dozen innovative mortgage products

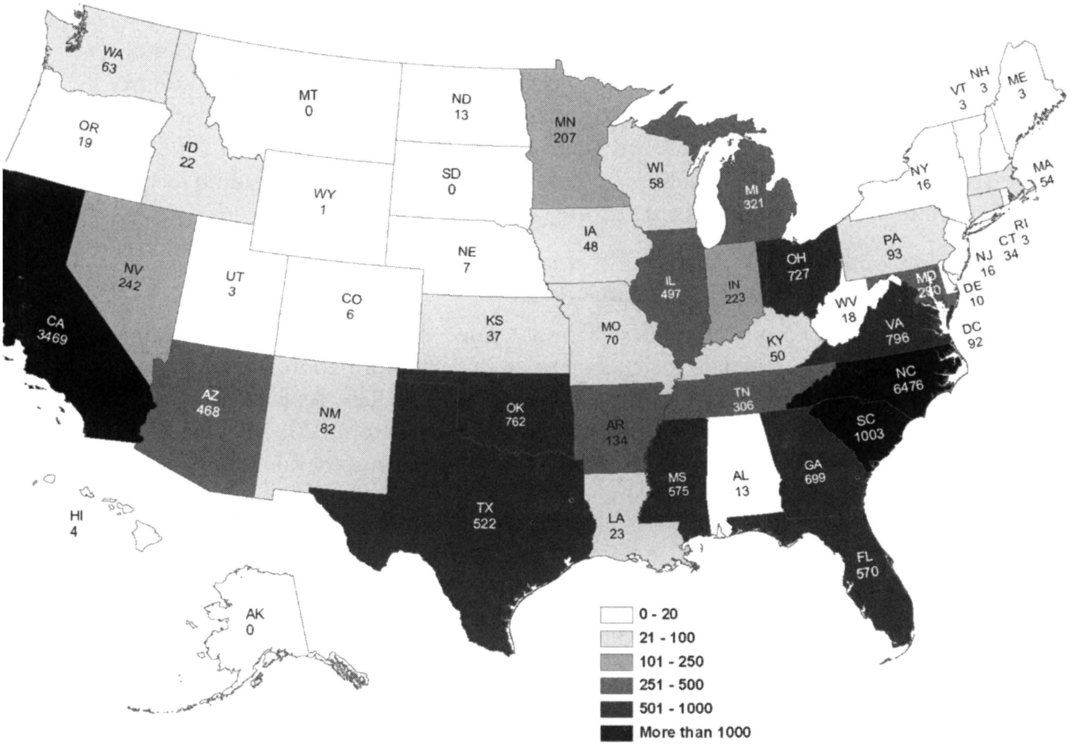


Figure 8.1. Number of CAP loans by state.

designed to expand mortgage lending, and the social and wealth impacts of homeownership. A core element of our research design is a five-year panel survey of more than 3,700 CAP borrowers and a comparison group of low-income renters whose housing and other circumstances we are also tracking.

Data on loan characteristics for the analysis presented here come from 21,497 CAP loans to low- and moderate-income borrowers that were originated between January 1, 1998, and December 31, 2002, and that Self-Help purchased from participating lenders as part of the Community Advantage Program. These loans, with a median original principal of $79,500, constitute about 78 percent of the more than 27,500 loans that make up the CAP historical book of business. There were too few pre-1998 loans in our database to estimate vintage effects, while 2003 purchases had too little time to show any market effects. In addition, data from the Dow Jones Index and monthly six-month CD rates were obtained from various sources (as cited) and used for comparison purposes due to their widespread use as asset-building benchmarks.[3]

By most definitions, CAP borrowers are as nontraditional as the loans they secured to buy their homes. In comparison with borrowers whose conforming first mortgage loans were purchased by Fannie Mae and Freddie Mac in 2000, CAP homeowners were five times more likely to be African American, 2.5 times more likely to be Hispanic, more than four times more likely to have incomes below 60 percent of the area median, more likely to be single females, and more than twice as likely to be under thirty years of age (table 8.1). More important, 35 percent of all CAP families had blemished credit, reflected in credit (FICO) scores of less than 660. In addition, over 4 percent of all borrowers had no credit score but were still approved for a mortgage loan.

The Wealth-Building Potential of CAP

While many empirical studies of house price dynamics use commercially available property sales data to generate price change information, we use a proprietary valuation model to estimate current market values. As part of its participation in the Community Advantage Program, in October 2003 Fannie Mae provided current market value estimates from its automated valuation model (AVM) for all properties in the program.[4] We use these estimated market values

3. To estimate changes in the Dow Jones Index, we took the Dow value on January 1, 1998, and September 30, 2003, and calculated the appreciation rate (on an annual basis, compounded monthly). The CD annualized rate of return from January 1998 through September 2003 assumes a six-month CD purchased in January 1998 and rolled over every six months at the national average CD rate in that month (CD rates downloaded from http://mortgage-x.com/general/indexes/default.asp).

4. Data used in the AVM include repeat sales information, public tax records, and property characteristics. AVM employs four different underlying models, a reconciliation model to

Table 8.1. Recipients of Community Advantage Loans Originated 1998–2002 Compared with Conforming Loans Bought by Fannie Mae and Freddie Mac in 2000 (in Percent)

	Self-Help	Fannie Mae	Freddie Mac
Race or ethnicity			
White	51.9	81.5	84.3
Black	19.9	4.0	3.9
Hispanic	20.7	7.2	5.9
Other	7.5	7.3	5.9
Income			
60% AMI* or lower	50.9	11.6	12.2
61–100% AMI	45.7	28.2	28.8
Over 100% AMI	3.4	60.2	59.0
Single women	26.9	17.8	17.8
Age			
Less than 30 years old	38.9	15.4	14.0
30–39 years old	32.1	29.7	25.9
40 years or older	29.0	41.2	34.7
Credit scores			
No score	4.6	n/a	n/a
<=620	16.1	n/a	n/a
621–660	19.4	n/a	n/a
661–720	28.1	n/a	n/a
720+	25.4	n/a	n/a
Missing	6.3	n/a	n/a

Sources: "Self-Help Community Advantage," HUD Housing Finance Working Paper, HF-015, May 2002, and authors' calculations.

*AMI is Area Median Income, i.e., median income of the MSA or state for non-MSA areas.

to compute "paper" gains or losses experienced by CAP homebuyers. In addition, we use AVM to estimate the market value of each CAP property as of a single date—September 30, 2003—to calculate our price changes for homes purchased between January 1, 1998, and December 31, 2002. Thus, the term of ownership can vary from nine months to thirty-three months.

come up with the best value estimate in case of multiple model predictions where valuations vary, and a confidence score model to rank-order prediction accuracy at the property level. Because of substantially higher mean and median rate and variance of price appreciation for the least reliable confidence category, we chose to omit those loans from our analysis. AVM is examined annually by Fannie Mae's regulator, the Office of Federal Housing Enterprise Oversight, which has consistently awarded high grades in regulatory audits.

To compare the experiences of CAP buyers to market averages, we use the Office of Federal Housing Enterprise Oversight's (OFHEO) House Price Index (HPI), which is published on a quarterly basis and tracks average house price changes in repeat sales or refinancings on the same single-family properties. OFHEO's index is based on analysis of data obtained from Fannie Mae and Freddie Mac from more than 23 million repeat transactions over the previous twenty-eight years. The HPI reflects price movements on a quarterly basis of sales or refinancings of single-family homes whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac (Office of Federal Housing Enterprise Oversight 2003, 2).

The two variables of primary interest in this chapter are the price appreciation rate of the property and the equity appreciation rate for the borrower. The price appreciation rate is the annual appreciation rate (compounded monthly) calculated using actual purchase price at origination, the AVM-estimated value in October 2003, and the number of months between purchase and October 2003. The equity appreciation rate is the annual appreciation rate (compounded monthly) using the borrower's equity at time of origination, the equity as of October 2003 calculated as AVM-estimated value less current unpaid mortgage balance, and the number of months between purchase and October 2003. For loans with a loan-to-value (LTV) ratio greater than 100 (12.1 percent of loans), initial equity was set at $500, which is the typical minimum buyer contribution required by most lenders for high-LTV Community Advantage loan products.

Gains Significant and Widespread but Not Universal

During a period in which the Dow Jones Index rose by just 2.78 percent a year and CD rates averaged 4.34 percent a year, according to AVM estimates as of September 30, 2003, CAP families who bought their homes between 1998 and 2002 enjoyed an average annual appreciation rate of 5.43 percent (figure 8.2).

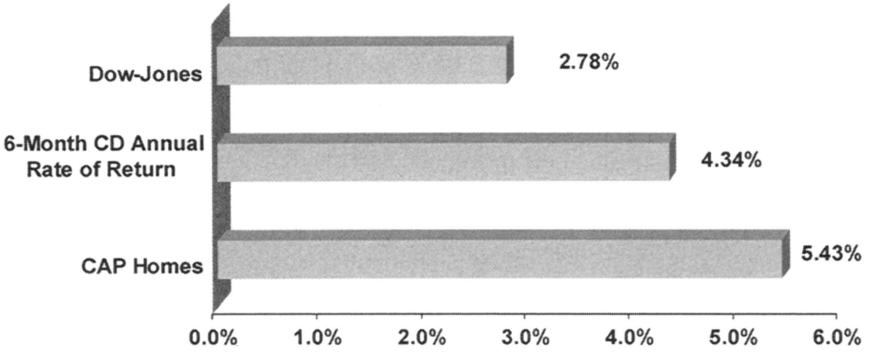


Figure 8.2. Median annual change in CAP home price versus rates of return for other investments, 1998–2003.

This is close to the long-run average annual increase in nominal house prices of 6.3 percent for the country as a whole for the period 1968–2001 (Di, Yang, and Liu 2003, 4). Overall, the median "paper" gain for all CAP owners was $16,433, while fewer than 2 percent of all homes fell below their original purchase price (table 8.2). Just over 5 percent of all CAP buyers fared worse than the Dow, while 26 percent experienced gross returns that were below those they might have earned from investing in CDs (table 8.3).

Table 8.2. House Price Appreciation, 1998–2002, by Year of Origination, CAP Loans as of September 2003

Year	N	Change in Value ($)	Change in Value (%)	Annual Appreciation Rate	Percent with Negative Value Change
All	19,163	16,433	19.7	5.43	1.65
1998	3,218	20,198	25.3	4.29	0.71
1999	3,112	18,660	22.4	4.81	1.00
2000	4,610	12,666	15.7	4.50	1.30
2001	5,388	17,079	19.4	7.62	1.50
2002	2,835	14,204	13.7	9.27	4.27

Sources: Self-Help, Fannie Mae, and authors' calculations.

Reported values are medians, except in the last column. The Annual Appreciation Rate is compounded monthly.

Table 8.3. House Price Appreciation Rates Compared with Dow-Jones and CD Rates by Origination Year, CAP Loans as of September 2003

	Below Dow-Jones		Below CD Rates	
Year	N	%	N	%
All	994	5.2	5,051	26.4
1998	397	12.3	1,570	48.8
1999	11	0.4	1,252	40.2
2000	10	0.2	1,474	32.0
2001	91	1.7	472	8.8
2002	485	17.1	283	10.0

Sources: Self-Help and authors' calculations.

For each CAP property, the appreciation rate is compared with (1) the appreciation in the Dow-Jones Index between the month of origination and September 30, 2003, and (2) the value of a six-month CD purchased in the month of origination and rolled over every six months through September 2003.

Timing Is Important

Generally, the absolute change in price increases with length of ownership, with the median increase in price being the highest for families who bought their homes in 1998 ($20,198) and lowest for those who bought in 2002 ($14,204). More recent borrowers bought homes during a time of generally higher appreciation rates—annualized percentage gains for families who closed on their homes in 2001 and 2002 are greater than gains for those who bought between 1998 and 2000—but over time, their experiences may become more similar to those of families who bought in earlier years (table 8.2). Nevertheless, 98 percent of all CAP families who bought their homes between 1999 and 2001 outperformed the Dow, while only 83 percent who bought in 2002, as the stock market recovered, had annualized returns that exceeded the Dow (table 8.3).

Table 8.4. House Price Appreciation, 1998–2002, for Selected States, CAP Loans as of September 2003

State	N	Change in Value ($)	Change in Value (%)	Annual Appreciation Rate	Percent with Negative Value Change
All	19,163	16,433	19.7	5.43	1.6
MD	290	58,438	40.7	18.16	0.3
CA	3,469	83,981	59.6	16.70	0.1
FL	570	26,079	30.4	13.16	1.4
VA	796	34,928	36.9	11.23	0.5
IL	497	29,943	28.4	8.50	0.2
AZ	468	13,557	15.4	6.65	2.6
NV	242	21,902	21.0	7.42	2.1
TX	522	12,895	16.5	5.70	5.2
MI	321	13,693	17.0	5.52	0.3
OK	762	9,958	13.8	5.10	0.9
GA	699	15,556	15.8	4.99	1.9
TN	306	9,086	12.8	4.38	3.6
OH	727	7,688	11.0	4.19	3.2
MS	575	8,920	13.2	3.94	0.2
NC	6,476	11,554	14.2	3.38	2.5
SC	1,003	10,269	13.7	3.29	1.7
Other states	1,440	16,268	18.9	6.65	1.3

Sources: Self-Help, Fannie Mae, and authors' calculations.

Reported values are medians, except in the last column. The Annual Appreciation Rate is compounded monthly. States are in descending order of price appreciation rate.

Conversely, only about half of all families who bought in the early years of the program, between 1998 and 2000, saw the prices of their homes grow faster than the CD rate. As interest rates plummeted in 2001 and 2002, at least 90 percent of CAP homes outperformed the CD index.

So Is Geography

As expected, value gains varied significantly across the country, with the greatest average gains—at least 13 percent a year—experienced by CAP families in Maryland, California, and Florida. The smallest increases—all under 4 percent a year—occurred in North Carolina, South Carolina, and Mississippi (table 8.4 and figure 8.3). In three of the ten states with the greatest number of CAP loans—California, Virginia, and Florida—Community Advantage families experienced gains that exceeded average statewide increases in home prices by significant margins (figure 8.4). On a more localized basis, price gains were highest in Los Angeles and Riverside, California, and in metropolitan Washington, D.C., where advances in value of CAP family homes outpaced metropolitan increases. In these hot metro markets, median annual appreciation rates for CAP homes were 16 percent or higher.

But Not Everybody Wins

While prices rose on the vast majority of all CAP homes, on average just under 2 percent lost value. Disproportionately large numbers of families in three of the fifteen states with the largest number of CAP borrowers experienced paper losses, including 5.2 percent in Texas, 3.6 percent in Tennessee, and 3.2 percent in Ohio. From a vintage standpoint, the worst year was 2002: 4 percent of all

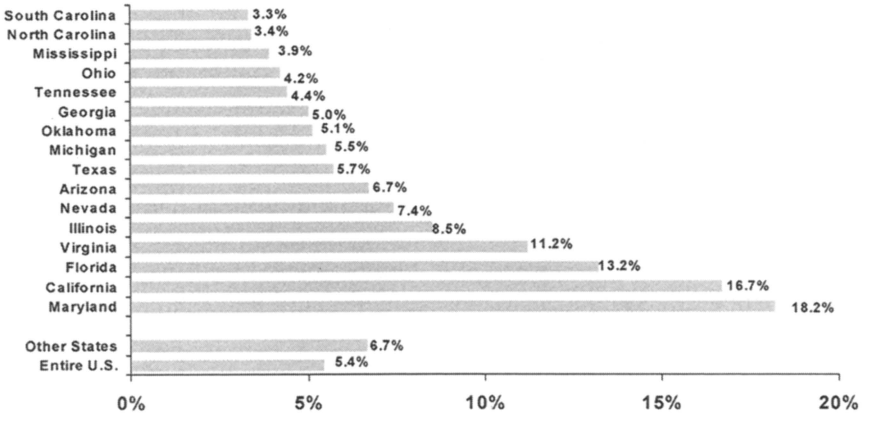


Figure 8.3. Median annual appreciation rate in price of homes purchased between 1998 and 2002.

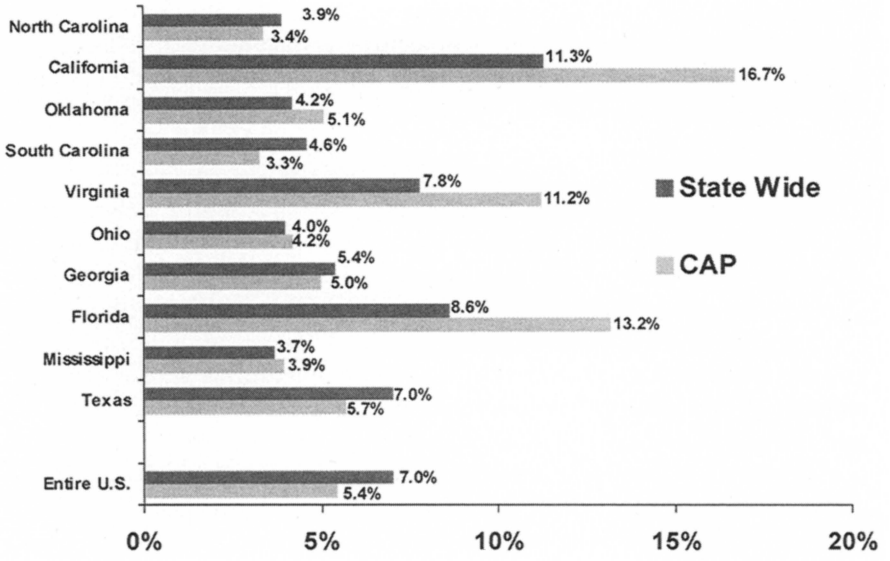


Figure 8.4. Median appreciation rates for CAP homes and state index, top ten CAP states, 1998–2003.

homes bought that year fell in price, though this number will probably decline over time.

Leverage Turns Relative Losers into Winners

Because of exceptional leverage—most CAP loans required very modest amounts of upfront cash—average returns to initial equity exceed overall value increases by wide margins. This means that most families whose homes appreciated more slowly than either the Dow or the CD composites saw their initial equity investments grow at far faster rates than for either of these benchmarks. Across all CAP families, the average annual increase in initial equity was nearly 70 percent; the increase exceeded 90 percent in two states and 100 percent in four states (figure 8.5).

In absolute terms, CAP homeowners gained a median $17,500 in housing wealth (current home value minus outstanding mortgage balance minus initial down payment). CAP homeowners in California enjoyed median gains in housing wealth of nearly $84,000; in Maryland, more than $56,000; in Illinois, about $33,000; and in Virginia, $32,000 (table 8.5).

Families with Spotty Credit Fared Well

Significantly, households with blemished credit or no credit history—who might not have been able to qualify for a prime mortgage loan were it not for CAP—as

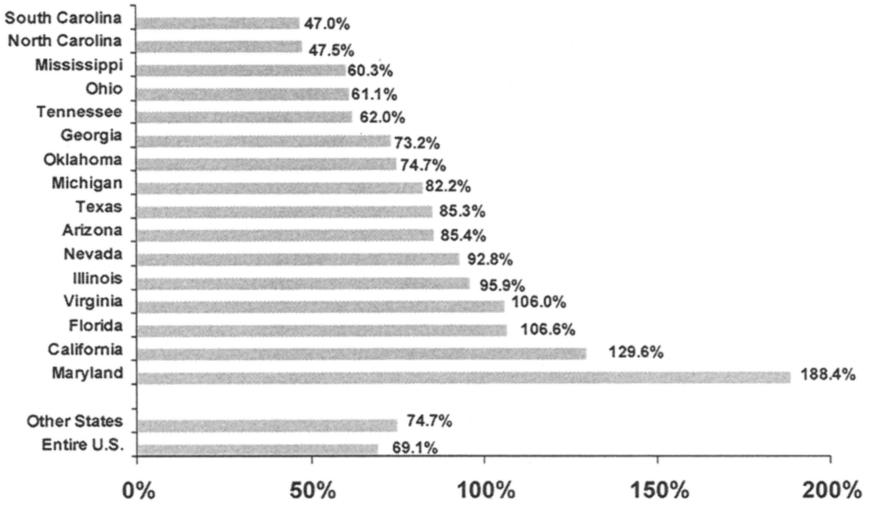


Figure 8.5. Median annual appreciation rate of initial equity, by state, 1998–2003.

well as those who missed one or more mortgage payments during their relatively brief period of ownership also enjoyed significant gains. The median annual equity appreciation rate for homeowners who had no credit score was 88 percent, while those with a FICO score of 620 or less enjoyed an annual median increase in initial equity of 64 percent a year, compounded monthly (table 8.6 and figure 8.6).

Regardless of delinquency history, families experienced annual median equity gains of about 70 percent. These findings suggest that if they can gain a foothold in the homeownership market, even families with spotty credit histories or who are new to the credit system can build substantial assets through homeownership. For families who fall behind in their payments and flirt with default, these results suggest that there is usually significant accumulated equity in homes to allow for preventive servicing and creative approaches to help families keep their homes if their defaults are due to temporary setbacks.

Minority Gains Lag but Are Still Impressive

Perhaps the most positive findings are those related to the paper gains experienced by minorities who were able to buy a home through the Community Advantage Program. We also find, however, that consistent with other research (Di, Yang, and Liu 2003, 5; Ambrose and Goetzmann 1998, 4), black-owned homes appreciated about 10 percent less a year, at the median, than houses owned by whites (figure 8.7). These differences translate into lower annual equity appreciation rates: 57 percent for black CAP borrowers compared with 66 percent for white participants.

Table 8.5. Equity Appreciation, 1998–2002, by Year of Origination and Selected States, CAP Loans as of September 2003

State	N	Current Housing Wealth ($)	Change in Housing Wealth ($)	Annual Appreciation Rate* (%)	Percent with Negative Equity Change
All	11,971	22,890	17,492	69.1	1.2
MD	130	62,763	56,733	188.4	0.0
CA	2030	96,530	83,889	85.4	0.0
FL	316	34,689	27,640	95.9	1.6
VA	449	35,764	31,579	92.8	0.7
IL	268	37,277	33,241	85.3	0.4
AZ	310	18,592	15,283	92.6	2.9
NV	153	30,577	22,209	61.1	2.0
TX	255	19,833	13,827	73.2	2.0
MI	154	13,854	11,066	106.0	0.0
OK	664	9,874	11,498	129.6	0.6
GA	323	19,922	16,588	74.7	0.6
TN	258	13,136	10,638	62.0	3.1
OH	493	9,159	7,234	106.6	2.8
MS	513	12,861	10,477	60.3	0.2
NC	4,190	18,365	14,172	47.5	1.6
SC	607	15,715	12,901	47.0	0.7
Other States	858	17,883	14,839	82.2	1.2

Source: Self-Help, Fannie Mae, and authors' calculations.

Reported values are medians, except in the last column. The Annual Appreciation Rate is compounded monthly.

*For loans with an LTV of 100 or greater, a $500 down payment was assumed. States are in descending order of equity appreciation rate.

Due largely to their concentration in hot markets such as California, Hispanic and Asian buyers experienced much greater annual gains in wealth than did whites. The median annual price appreciation rate for Hispanics was 13.7 percent and for Asians and Pacific Islanders 11.8 percent, which correspond to median annual equity appreciation rates of 89 percent and 68 percent, respectively.

With minority homeownership rates on the rise—from 42 percent in 1990 to 48 percent in 2003—experiences like those reported in this chapter might help to trim further the wealth deficit that has been narrowing in recent years. According to the Consumer Federation of America (2003, 1), in conjunction with BET.com, from 1989 to 2001 "the ratio of median black household wealth to median U.S. household wealth rose from 9.1% to 22.1%."

Table 8.6. House Price and Equity Appreciation, 1998–2002, by Urban and Rural Location, Credit Score and Delinquency History, CAP Loans as of September 2003

	Price Appreciation			Equity Appreciation		
	N	Annual Price Appreciation Rate	Percent with Negative Value Change	N	Annual Equity Appreciation Rate*	Percent with Negative Equity Change
Urban	11,430	6.34	1.8	6,604	67.2	1.3
Rural	6,106	4.16	1.5	4,075	66.3	0.9
Credit score						
Missing credit score	1,212	4.87	3.7	802	88.6	3.3
No credit score	885	9.61	1.7	647	87.5	1.4
<=620	3,082	5.05	1.5	2,331	63.8	1.0
621–660	3,725	5.54	1.5	2,456	67.6	1.0
661–720	5,383	5.61	1.3	3,153	70.7	0.8
>720	4,876	5.10	1.6	2,503	65.6	0.1
Worst delinquency						
Never delinquent	15,810	5.32	1.4	10,410	69.6	1.0
30 days delinquent	820	4.96	1.5	601	73.8	1.2
60 days delinquent	234	4.77	0.0	187	67.2	0.0
90 days delinquent	773	4.03	3.8	694	69.6	3.4

Sources: Self-Help, Fannie Mae, and authors' calculations.
Reported rates are medians. The appreciation rates are compounded monthly.
*For loans with an LTV of 100 or greater, a $500 down payment was assumed.

Home Equity in Household Wealth

Although we plan to collect detailed wealth data for a sub-sample of our panel of CAP homebuyers, which will enable us to determine the role of home equity in household wealth, at this time the best we can do is relate our estimates of household wealth to gross household income at the time of loan closing. Throughout our study period homeownership appears to have been a solid investment for all income groups, including those with the most modest incomes. Homebuyers with incomes of less than $20,000 experienced a median increase in "paper equity" of almost $25,000, just $2,500 less than the gain enjoyed by families with incomes between $40,000 and $50,000 (figure 8.8).

Including California loans, the median increase in home equity for the lowest-income families amounted to about 1.4 times household income at the time of

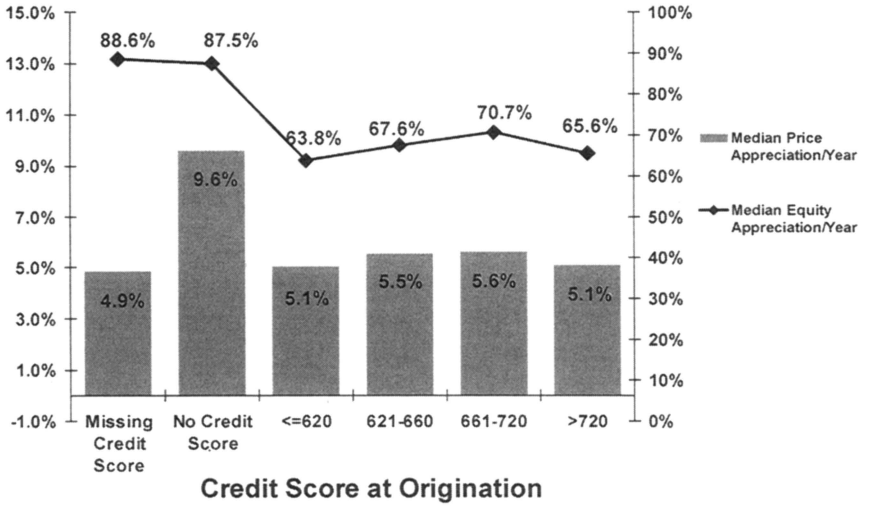


Figure 8.6. Median annual price and equity appreciation rates, by credit score at origination, 1998–2003.

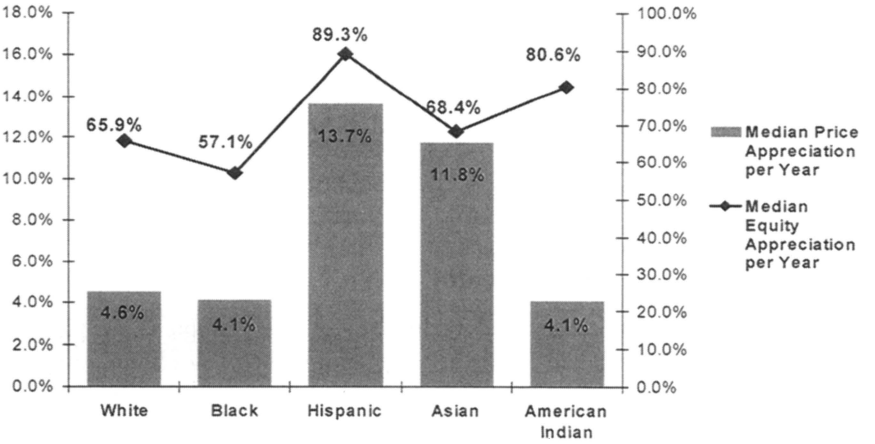


Figure 8.7. Median annual price and equity appreciation rates, by race and ethnicity, 1998–2003.

origination, while for families with incomes of $50,000 or more, equity gains amounted to 87 percent of household income. While excluding the California data reduced gains for both groups, reductions were proportionately greater for the highest-income families (tables 8.7 and 8.8).

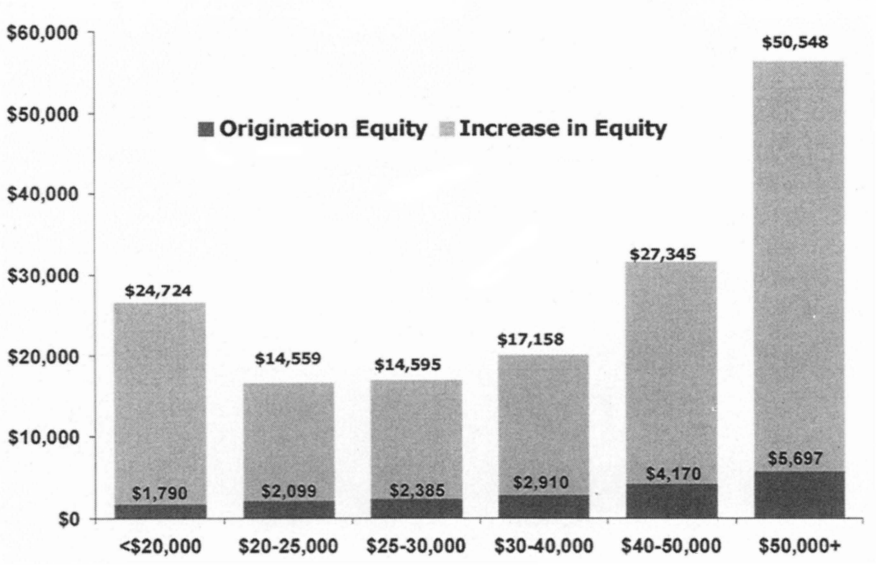


Figure 8.8. Origination equity and current equity by income (in ranges), CAP loans originated, 1998–2002.

Limitations of the Analysis

We noted earlier that one of the limitations of this analysis is that our methodology permits us to measure only paper gains and losses, since our price data are estimates of market value rather than actual sales prices. Another methodological limitation that we will correct in a later version is that while all price estimates are as of September 30, 2003, more than six thousand CAP loans included in our analysis were actually prepaid or terminated prior to that date (table 8.9).[5] This means that an unknown number of families may not actually have accrued the full gains (or losses) in housing wealth that we estimate. From an analytical perspective, the good news is that we find no difference in the median annual appreciation rate of active and prepaid loans, with just one exception. Nevertheless, the market values of the small number of homes on which a CAP mortgage was foreclosed did increase more slowly than those of all other loans: 7 percent of foreclosed homes lost value compared with less than 2 percent of all active and other prepaid or terminated loans.

More broadly, it should be noted that the loans purchased by Self-Help as part of CAP are not a random sample of all affordable loans made by lenders. Loans must meet certain requirements to qualify for purchase (for example, on-time

5. Because of time and resource constraints, we were unable to run the AVM separately for each prepaid loan marking to market all house values on their respective loan termination dates.

Table 8.7 Median Equity Change to Income Ratio by Raw Income, CAP Loans as of September 2003.

Income ($)	N	Equity Change to Income Ratio
Less than 20,000	1,704	1.38
20–24,999	2,157	0.65
25–29,999	2,425	0.53
30–39,999	3,677	0.50
40–49,999	1,298	0.61
50,000 or more	675	0.87

Source: Authors' compilation.

Table 8.8. Equity Change to Income Ratio by Raw Income, CAP Loans as of September 2003, Excluding California Loan

Income ($)	N	Equity Change to Income Ratio
Less than 20,000	1,504	1.09
20–24,999	1,952	0.59
25–29,999	2,178	0.49
30–39,999	2,990	0.41
40–49,999	918	0.36
50,000 or more	370	0.37

Source: Authors' compilation.

payments for nine months before purchase). Although in some localities CAP loans may represent a large proportion of all affordable loans originated, the lack of randomness in the sample selection limits the generalizability of the findings.

Conclusions

On the basis of our preliminary analysis, we can report that the vast majority of CAP families realized substantial gains in paper wealth as a result of their transition from renting to owning. While gains were lower for blacks than for whites, the concentration of Hispanic and Asian buyers in rising California housing markets helped these minority families to realize nearly triple-digit annual increases in equity appreciation. Our analysis also found that families with spotty credit records,

Table 8.9. House Price Appreciation, 1998–2002, by Prepayment and Foreclosure Status, CAP Loans as of September 2003

	N	Annual Appreciation Rate	Value Change Percent with Negative
Active loans	12,210	5.38	1.9
Prepaid loans	6,604	5.72	0.9
Foreclosed loans	144	3.98	7.6
Returned	295	3.88	2.7

Sources: Self-Help, Fannie Mae, and authors' calculations.

Reported values are medians, except in the last column. The Annual Appreciation Rate is compounded monthly.

or no established credit history at all, accrued significant gains in gross wealth, a result that underscores the importance of preparing more of these families to gain a foothold in the homeownership market.

While many caveats and qualifications surround these early analyses—including the fact that our end prices are estimates and not the result of actual sales, and that the interest rate environment throughout the study period was especially favorable—we find no evidence to suggest that national housing policy should reduce its emphasis on homeownership as a vehicle for potential wealth accumulation by low- and moderate-income families. Indeed, we would argue the contrary. Our ongoing evaluation of the Community Advantage Program suggests that prudent efforts to expand the array of affordable mortgage products to underserved populations and housing markets should move forward.

Finally, we believe that the results of our work may be usefully considered by a growing number of social welfare academics and consumer advocates who argue that finding ways to narrow the large and growing wealth disparity in our country is at least as important as, and perhaps even more important than, further narrowing the income gap. Where economists once argued that such inequality was the price of national economic progress, there is now evidence that social policies to lessen inequality are not necessarily inconsistent with economic policies to maximize growth (Stiglitz and Furman 1998, 7). Housing policies that increase homeownership also have the potential both to create and to democratize wealth.

We believe that a productive way to deal with the wealth constraint is to help households save for a modest down payment by infusing savings incentives into homeownership policies. This would enable buyers to move into their home with an equity stake from day one. Down payment savings initiatives could take many forms. Combined with financial literacy and homeownership counseling, such initiatives constitute one half of a prudent homeownership strategy. We also

propose building on recent technological advances to help lenders sell more affordable housing loans in the secondary market.

Given strong and enduring market fundamentals and secondary market innovations that have the potential to channel significantly more capital into affordable lending, the mortgage industry will respond to the upsurge in effective demand from households that come to the table with savings in hand, financially ready and able to become successful homeowners.

9

The Financial Returns to Low-Income Homeownership

ERIC S. BELSKY, NICOLAS RETSINAS, and MARK DUDA

Efforts to promote low-income homeownership have intensified since the early 1990s.[1] Under both regulatory and market pressures, the mortgage finance industry has responded by expanding mortgage credit to low-income borrowers (Apgar, Belsky et al. 2002). As a result, low-income homeownership increased over the course of the 1990s and the first three years of the twenty-first century.

Homeownership is being actively promoted because it is seen as a way to help low-income households build assets.[2] After more than three decades in which poverty policy focused on income support, some poverty analysts and advocates began in the 1990s to espouse strategies designed to help low-income households build wealth in order to complement the emphasis on work embodied in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Blank 2002).

Housing figures prominently in such strategies because home equity is the cornerstone of household wealth for most Americans. According to the Federal Reserve Board's Flow of Funds report (2004), home equity constituted 19 percent of household wealth at the end of 2003—nearly as great a proportion as the share of stocks and mutual funds combined. Even though stocks and mutual

1. Signs of this heightened interest abound. Congress established affordable lending goals for Fannie Mae and Freddie Mac in 1991, the Clinton administration set a national homeownership goal in 1996, the Neighborhood Reinvestment Corporation launched a national campaign to lift low-income homeownership rates in 1998, and the 2000 Bush campaign made a low-income homeownership tax credit the centerpiece of its housing policy.

2. Expanding homeownership appears in President George W. Bush's "Record of Achievement"(http://www.whitehouse.gov/infocus/achievement/chap7.html), and the White House Web site contains an extensive list of policy goals and accomplishments designed to increase the rate of homeownership among low-income and minority citizens (http://www.whitehouse.gov/infocus/homeownership/).

funds now rival the amount of home equity held by the household sector, home equity is much more broadly distributed. And it is especially vital to low-income households. According to the Survey of Consumer Finances (2001), for example, fully half of all households in the bottom income quintile owned a home in 2001, but fewer than 5 percent held stocks or mutual funds. Furthermore, the median net wealth of low-income homeowners is dramatically higher than the median net wealth of low-income renters. For example, in 2001 the median net wealth of owner households with less than $20,000 of income was $72,750 but that of renters was only $900. Although this reflects to some degree the greater concentration of elderly who are income-poor but endowed with housing wealth, even among those under sixty-five the difference is dramatic.

It is small wonder that housing plays such a large role in the acquisition of wealth among low-income households. Investing in a home is so attractive because the alternatives do not allow households to leverage small amounts of money to acquire costly assets. Low-income families with only several thousand dollars to invest can get a loan for as much as 95, 97, or even 100 percent of the value of the home they are purchasing. Even homebuyers who put 10 percent down receive a 10 percent return on their investment for every 1 percent increase in the home's value. In addition, part of their mortgage payment goes to paying down the principal on the loan. Thus, those who remain in their home for a long time not only pay off all or most of the principal but stand to benefit from any appreciation in the value of the home as well. Add to that the fact that capital gains on homes in most cases escape taxation and it becomes clear why promoting homeownership holds so much appeal for policymakers.

Nevertheless, investing in a home involves risks. First among them is the risk of defaulting on a loan if the borrower cannot keep up with payments as a result of an income shock (lost wages, hours, or employment) or a budget shock (major repair or replacement expense on the home or major medical bills). Households that default on their mortgages ruin their credit records. This in turn restricts their access to credit in the future and increases their future borrowing costs.

Homeowners also can lose money on their homes—and many historically have done so. Homeownership usually works to build assets for those who hold on to their homes long enough to benefit from paying down principal and to see at least some price appreciation. But homeownership can result in losses for those who sell so quickly that they do not recoup the steep transaction costs of buying and selling a home, those who sell for less than the purchase price of their home, or those who forfeit any rights to the value of the property by defaulting on their loan. In addition, under some circumstances, renting and investing the equivalent of the down payment in an alternative investment can earn a better return even though some equity would have been built by owning.

Thus the stakes associated with homeownership are high. Yet there are few studies of the financial returns to homeownership in general and low-income

homeownership in particular (DeGiovanni 2002). Available evidence indicates that returns to low-income homeowners are heavily dependent on the direction of home prices and rents after purchase (Belsky and Duda 2002). Nevertheless, whether low-income homeowners would benefit by renting instead depends not only on house price and rent movements but also on the interest rate and terms of their mortgage, whether they refinance when it would be in their interest to do so, when in the price and rent cycle they buy and sell, and how long they hold the home (Haurin and Gill 2002).

This chapter has two goals. The first is to explore what little is known or has been conjectured about the financial returns to low-income homeowners and the key factors that influence them. The second is to simulate the returns to low-income homeownership compared to renting since 1983 in four metropolitan areas under a range of mortgage interest rate, refinance, and tax scenarios. The returns earned by low-income homeowners are best viewed in relation to the costs of renting because even owners who earn positive returns might have been better off had they invested their downpayment elsewhere and rented instead (Goodman 1997). Thus, the simulations treat the financial returns to homeownership as the difference between the "costs" of owning, on the one hand, and those of renting but investing the down payment in an alternative financial instrument, on the other.

The results underscore that mortgage interest rates, refinance behavior, and tax benefits all exert significant influences on the returns earned by low-income homeowners. Estimates of the impact of these factors are important because low-income homeowners are more likely than others to take out loans with high interest rates, are less likely to refinance, and are seldom able to take advantage of mortgage interest and property tax deductions.[3]

The tendency for larger shares of low-income homeowners, especially those purchasing homes in low-income areas, to take out mortgages at higher interest rates is a relatively recent development. Prior to the 1990s, access to mortgage credit was governed almost exclusively by rigid underwriting standards. Mortgage borrowers either got credit at a single predetermined interest rate or they did not. Within a product line, such as a thirty-year fixed rate mortgage, there was very little variation among lenders.

3. Average returns for low-income homeowners are also influenced by their tendency to take out loans with higher loan-to-value ratios. When prices appreciate strongly, this often benefits homeowners. Even though they pay higher capital costs as a result of required mortgage insurance premiums on loans with less then 20 percent down, in return they are more highly leveraged. That higher leverage is what allows them to benefit proportionally more when prices appreciate. Whether it is enough to offset the higher capital costs depends on the magnitude of the appreciation net of transaction costs of selling. Higher leverage also limits losses in the event of default.

During the 1990s, however, lenders increasingly began relaxing credit standards. Instead of rationing credit on the basis of meeting minimum standards, lenders began to price for greater risk. In effect, this has shifted the determining factor of access to credit from the ability to meet uniform standards to the willingness of borrowers to pay higher interest rates in return for more liberal standards. These changes were fueled by the development of a secondary mortgage market in these so-called sub-prime, higher-priced loans. Finance companies originated loans and sold them to investment banks, which packaged them as securities and sold them to other investors. Expanded use of information technologies has increased lenders' confidence that they can correctly price riskier loans, and opportunities for higher returns in the sub-prime market have helped attract more lenders.

Although the incidence of sub-prime home purchase and refinance loans was only slightly higher for low-income (less than 80 percent of area median) than high-income (greater than 120 percent of area median) borrowers, the rate of increase in low-income sub-prime loans was much higher in the 1990s. Between 1993 and 2001, the number of sub-prime home purchase loans made to moderate- and high-income borrowers (more than 80 percent of area median) increased about 7.5-fold and of sub-prime refinance loans about fivefold. Among low-income borrowers (less than 80 percent of area median), the number of sub-prime home purchase loans increased more than ninefold and of refinance loans by elevenfold. Furthermore, by 2001 incidences of sub-prime loans were sharply higher in low-income areas. The sub-prime share of home purchase loans reached 10.3 percent in low-income areas but only 5.1 percent in high-income areas. Sub-prime refinance loans stood at 20.8 percent in low-income areas but only 6.6 percent in high-income areas. In predominantly minority low-income neighborhoods, the sub-prime share was higher still (Joint Center for Housing Studies 2003). Thus, returns to homeownership increasingly depend on the prevailing prime and sub-prime mortgage interest rates in the year a buyer purchases.

Low-income homeowners are also less likely to refinance when it would be advantageous for them to do so, and more likely to take out a sub-prime mortgage if they do (Van Order and Zorn 2002). The reasons for these behaviors are not well understood. It appears that they have less to do with differences in appetite for refinancing and more to do with special constraints some borrowers face (Archer, Ling, and McGill 2002). These include reductions in income, house prices, or credit scores between time of purchase and the opportunity to refinance which may prevent borrowers from refinancing at all, or from refinancing at prime rates. In the case of refinancing sub-prime loans, reasons for not refinancing may extend to prepayment penalties. The remarkable surge in sub-prime refinances indicates that much refinancing may now increase rather than reduce the costs of homeownership to the borrowers.

Finally, low-income homeowners typically do not benefit from mortgage and property tax deductions because the value of the standard deduction exceeds the

value to them of these itemized deductions. In fact, only 3 percent of homeowners with incomes under $20,000 and 16 percent with incomes between $20,000 and $29,000 itemized their deductions in 1998 (Bourassa and Grigsby 2000). In contrast, 86 percent of homeowners with incomes above $75,000 itemized. And even among low-income homeowners who do itemize, the value of the mortgage interest deduction is lower because their marginal tax rates are lower.

Drivers of Financial Returns to Low-Income Homeownership

The financial returns to low-income homeowners depend on a range of variables that, when aggregated over time, result in a frequency (density) distribution of actual returns. The variables that most greatly drive differences in returns are house price changes, mortgage interest rates and fees, mortgage terms, marginal tax rates, size of the mortgage relative to house value, maintenance and improvement expenses, property tax rates, returns on alternative investments, and holding periods (cf. Goetzmann and Spiegel 2002; Flavin and Yamashita 2002; Poterba 1992; Case and Mayer 1995, 1996; Collins 2002).

Because low-income and high-income homeowners can be expected to differ in systematic ways on several of these variables, one can also expect that their financial returns from homeownership will vary systematically as well. As noted, low-income homeowners have lower marginal tax rates and are more likely to have sub-prime mortgages. They are also more likely to have longer holding periods. Consider the cohort of homebuyers from 1984 and 1985. According to the American Housing Survey (1989), four years later only a fifth of low-income homeowners had moved, compared to a quarter of high-income homeowners. Ten years later only about one-third of low-income homeowners had moved, compared to nearly half of high-income homeowners.

While these differences between low-income and high-income homeowners are well established, others are less so. Despite more than a dozen studies of the differences in appreciation rates between low-cost homes and higher-cost homes, there is no consensus on what drives these differences when they are found (Case and Marynchenko 2002). Nor is there much evidence on differences in maintenance and improvement spending as a share of house value by income level. Reported maintenance and improvement expenditures as a share of house value in the American Housing Survey are positively related to income. According to the 2001 AHS, more than half of homeowners with incomes under $20,000 did not spend any money on home improvements in the prior two-year period. Among those with incomes between $20,000 and $40,000, the median amount spent expressed as a share of $1,000 of house value was only 1.0 percent, but for those with incomes of $40,000 to $60,000 it was 3.2 percent and over 5 percent for those earning between $80,000 and $120,000. Even median

maintenance expenditures were lower for lower-income homeowners, with the median reported spending expressed as a share of $1,000 in value standing at about 0.65 percent for those with incomes under $20,000 but about 1 percent for other income groups. Furthermore, low-income homeowners who purchase poorer-quality homes are apparently forced to spend more on maintenance relative to the value of their homes than those who purchase better-quality units. But they also spend less on improvements, presumably because they do not expect to recoup much of their investment.

Distribution of Capital Gains and Losses

Financial returns to homeownership are the product of multiple factors. Unfortunately, there were no studies that estimated the frequency distributions of actual historical returns to homeowners in general or low-income homeowners in particular. The study that came closest examines the actual prices at which owners of low-, moderate-, and higher-valued homes bought and sold their homes in Boston, Chicago, Denver, and Philadelphia between 1982 and 1999 (Belsky and Duda 2002). In this study, estimated transaction costs were netted out from the gross gains or losses on sales and then were expressed as a percentage of initial down payments. The study concluded that "contrary to the general public perception that low cost homeowners are more likely to experience real losses when they resell, findings reported here suggest that losses are generally less common and less severe among those who purchased homes that would have been affordable to low-income households at the time of purchase. Nevertheless, for all groups, real losses are remarkably common" (209).

The authors attributed the lower loss probabilities of low-cost homeowners to differences in price appreciation rates among the value segments and in the timing of purchases and sales. Of the two, the timing of purchases and sales was central. High-valued homes were more likely to be purchased near price peaks, and holding periods were shorter on average for higher-valued than for lower-valued homes. In one example, buyers of low-cost homes in Denver accounted for fully 38 percent of buyers during the house price cycle trough but only 4 percent of the buyers at the peak. In the three metropolitan areas in which prices cycled (they did not in Chicago), the higher home prices at the peaks apparently discouraged or excluded buyers from purchasing lower-cost homes. Equally important, owners of low-cost homes were less likely to sell during a downturn in prices. Those who did sell during a downturn were more likely not to suffer a loss because of the timing of their initial purchase. With the significant expansion of mortgage credit to low-income borrowers throughout the 1990s and the decline in mortgage interest rates in subsequent years, however, it is possible that this time around low-income homeowners will account for larger shares of homes bought at or near the peak of cycles (Duda and Belsky 2002).

Although owners of low-cost homes did better, even among those who both bought and sold low-cost homes, a significant fraction suffered capital losses. Between 1982 and 1999 the share of owners of low-cost homes who suffered capital losses over holding periods of five and a half to eight and a half years amounted to about 52 percent in Philadelphia, 31 percent in Chicago, 28 percent in Boston, and 13 percent in Denver (figure 9.1).[4] It is important to keep in mind, however, that the available data restricted the study to examining holding periods of eight and a half years or less. Because about two-thirds of low-income homeowners are likely to own their homes for more than ten years, it is likely that far smaller shares of all low-income owners ended up selling at a loss.

While the study provides compelling evidence that owners of lower-valued homes may do better than owners of higher-valued homes with respect to gains on sale, it falls short of providing a complete picture of the share who would have done better renting. To do that would have required estimating the alternative return on the down payment if it had been invested elsewhere and comparing the operating costs of owning and renting.

Apart from this study, there are only a handful of others that touch on aspects of the financial experiences of low-income homeowners. These may usefully

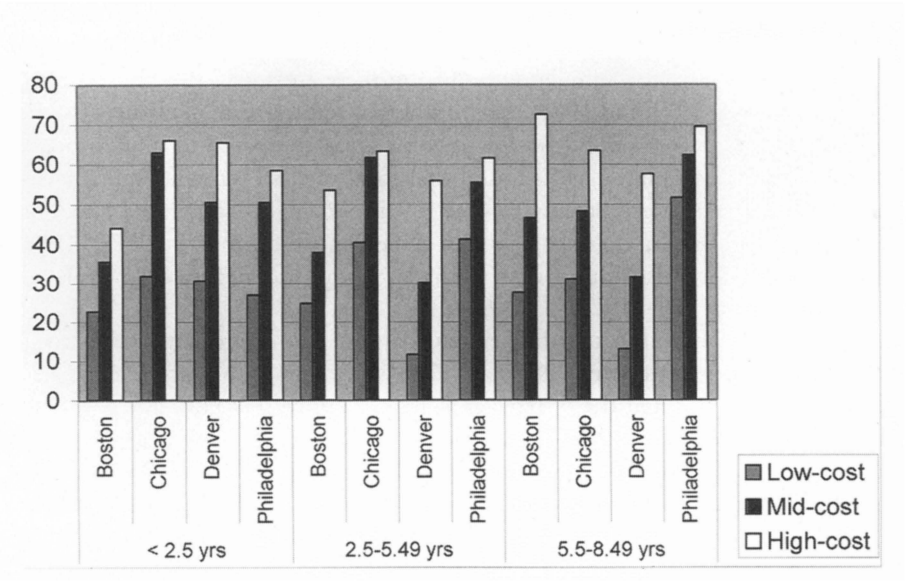


Figure 9.1. Percent of homeowners who sold for less than the purchase price in real dollars net of transaction costs, 1982–1999. Authors' tabulations of repeat sales data from Case, Shiller, Weiss, Inc.

4. An important caveat is that the transactions evaluated were for single-family homes only and were net of defaulted loans. Thus, the actual shares with losses may be higher.

be divided into those that examine the house price appreciation of low-valued homes, the implications of electing to buy a home rather than renting from an asset allocation perspective, the prevalence of sub-prime lending in low-income areas and to low-income borrowers, and differences in refinancing behavior by borrower income.

House Price Appreciation

Several studies have compared house price movements of low-cost properties to those of higher-cost properties in the same metropolitan area. As noted, the findings from these studies are inconsistent and inconclusive. Both Kiel and Carson (1990) and Pollakowski, Stegman, and Rohe (1992) found little significant difference in the rates of home price appreciation between lower- and higher-priced units in a variety of metropolitan areas. In contrast, Smith and Tesarak (1991) found that higher-priced homes appreciated more rapidly during the Houston price expansion and declined more precipitously during the contraction. Seward, Delaney, and Smith (1992), however, found that higher-priced homes appreciated faster during the expansion in St. Petersburg, Florida, but contracted at about the same rate during the downturn. Quercia et al. (2000) found that prices in underserved areas in Dade County, Florida, appreciated at least as much as prices in areas not defined as underserved but had greater volatility in both positive and negative directions. Simulating returns in these areas over five-year holding periods between 1971 and 1989, they found that returns were likely negative in eleven of the eighteen periods in low-income areas compared to nine in other areas. Li and Rosenblatt (1997) found that local median incomes appreciated as fast as general prices during 1987–1989 in Anaheim–Santa Ana and Los Angeles–Long Beach, California, but declined more during the 1990–1994 contraction. They also found that median income was negatively correlated with house price volatility.

Poterba (1991) found that higher-valued properties appreciated faster than lower-valued properties from 1970 to 1986 in Atlanta, Chicago, Dallas, and Oakland. He attributed the difference to high marginal tax rates and inflation expectations. With the drop in the marginal tax rates on the highest brackets and reductions in inflation expectations, however, it is possible that appreciation rates may now be equal or greater for low-valued homes. Furthermore, Mayer (1993), using the same data, challenged Poterba's findings. He concluded that house prices were in fact more volatile at the high end than at the low end but that in the long run they move together.

Smith and Ho (1996) posited that monetary shocks widen price differentials between higher- and lower-priced homes, while fiscal shocks narrow them. Inflation causes a larger change in real demand for higher-priced homes, while rising incomes lift demand for lower-priced homes. Evidence from changes in Toronto house prices supports their conclusion. Case and Shiller (1994)

reached a similar conclusion when examining what drove prices up higher at the lower than at the higher end of the price distribution in Boston and Los Angeles, attributing the better appreciation of low-cost properties to income growth at the lower end of the income distribution. Real income growth among lower-income quintiles was unusually rapid during the 1990s, as was the expansion of credit to low-income homebuyers, so there is reason to believe that appreciation rates may have accelerated for lower-valued relative to higher-valued homes in many places during the 1990s.

Lastly, Case and Marynchenko (2002) concluded that the patterns of price changes in the three metropolitan areas they studied—Boston, Chicago, and Los Angeles—were complex and defied generalization. Nevertheless, they reached the tentative conclusion that places with concentrated poverty fared the worst in terms of home price appreciation, while places with high home prices and low levels of poverty tended to fare the best.

Portfolio Allocations

The literature on the value of alternative investment choices open to low-income households is small. Ambrose and Goetzmann (1998) investigate the optimal investment choice of low-income households by using a Markowitz asset allocation framework. This framework estimates a set of portfolios that yield the maximum return for a given level of risk on an after-tax basis. They conclude that investing more than 34 percent of total assets in housing in Atlanta, assuming that low-cost homes appreciated at the market-wide average, is not optimal.

Goetzmann and Spiegel (2002) similarly conclude that low-income households run the risk of investing more in housing than they should, given its risk-return characteristics and correlation with returns to other assets. They also underscore the importance of federal tax policy to the decision whether to own or rent and the value of choosing one over the other. Remarking on the higher marginal tax rates of higher-income homeowners and the fact that many low-income people have an effective tax rate of zero, they conclude that it will take a significant change in tax law or more direct subsidies to make homeownership financially desirable for most low-income households.

Sub-Prime Lending

The literature on sub-prime lending reveals that larger shares of loans to low-income than high-income homeowners are originated by sub-prime lenders or are sub-prime loans. The major federal data set that contains information on loan originations, the Home Mortgage Disclosure Act, does not contain information on the interest rates and fees charged on loans but gives only the size of the loan, its location, and the income and (in some cases) the race or ethnicity

of the borrower. As a result, sub-prime loans cannot be observed directly but instead must be inferred from the type of lender that originated the loan.[5]

Nevertheless, the evidence is compelling that low-income borrowers are more likely than higher-income borrowers to receive sub-prime loans, especially those who purchase in lower-income neighborhoods (Joint Center for Housing Studies 2000). Focusing on Atlanta, Baltimore, Chicago, Los Angeles, and New York, HUD found that sub-prime loans were three times more common in lower-income neighborhoods than in higher-income neighborhoods (HUD 2000). Another study found that sub-prime borrowers are less knowledgeable about the mortgage process, are less likely to search for low mortgage rates, and are less likely to be offered alternative mortgage products (Courchane, Surette, and Zorn 2003).

There is little information on the typical rates and fees charged on sub-prime loans, but what evidence there is suggests that these rates and fees vary widely. Cutts and Van Order (2003) report that the average APR (annual percentage rate) mortgage interest rate in 2001 on thirty-year fixed rate mortgages ranged from 7.2 percent on the highest-quality sub-prime loan (often called Alt-A) to 12.75 percent for the lowest (CC or D). They report that the average rate was 9.83 percent, or about two to three percentage points higher than a prime loan rate. These rates include the effect of points and fees rolled into principal loan amounts. These fees are often several percentage points of the loan amount. Paying three, four, or more points is relatively common in the sub-prime market but uncommon in the prime market (Lax et al. 2000).

The impact of higher interest rates on the cost of owning a home is profound (table 9.1). A homebuyer putting 5 percent down on a $90,000 home (the median home price for low-income homebuyers nationally in 2000–2001) with a 7 percent thirty-year fixed rate mortgage, for example, would spend $122 less a month than a homebuyer with a 9 percent mortgage, and $317 less than a homebuyer with a 12 percent mortgage. Over a fifteen-year period, the buyer with a 7 percent interest rate would spend $135,646 on interest, the 9 percent buyer $179,629, and the 12 percent buyer $249,709. The reduction in wealth is dramatic—more than $70,000 over fifteen years between the 7 and 12 percent cases.

The impact of rolling fees into mortgage balances is also wealth-reducing (see table 9.2, p. 205). Packing fees into the loan amount adds to interest costs. The difference in monthly costs between financing one percentage point of the mortgage balance and five when a borrower has a 7 percent interest rate and a

5. The Department of Housing and Urban Development maintains a list of sub-prime lending specialists that it makes available to the public. It defines sub-prime lending specialists as those with 50 percent or more sub-prime loan originations. With the rapid growth of sub-prime lending and mergers, acquisitions, and consolidation in the sub-prime industry, identifying sub-prime loans by using the list has become prone to greater error over time.

9.1. Impact of Interest Rate (IR) and Mortgage Insurance Premiums (MIP) on Debt Service

MIP	LTV[a] %	Starting Balance ($)	Monthly Payment[b]($)	Total Interest[c]($)	Qualifying Income ($)	Down Payment ($)	Taxes and Insurance (1.5%; $)	M
	80	72,000	479	100,445	20,692	18,000	1,080.00	
0.52	90	81,000	567	123,294	24,317	9,000	1,215.00	
0.78	95	85,500	614	135,646	26,225	4,500	1,282.50	
0.96	100	90,000	658	146,837	28,014	0	1,350.00	
	80	72,000	579	136,556	24,339	18,000	1,080.00	
0.52	90	81,000	682	164,626	28,492	9,000	1,215.00	
0.78	95	85,500	736	179,629	30,667	4,500	1,282.50	
0.96	100	90,000	787	193,368	32,715	0	1,350.00	
	80	72,000	741	194,619	30,204	18,000	1,080.00	
0.52	90	81,000	866	230,650	35,163	9,000	1,215.00	
0.78	95	85,500	931	249,709	37,745	4,500	1,282.50	
0.96	100	90,000	993	267,382	40,192	0	1,350.00	

rce for Tables 9.1 and 9.2: Author's Compilation.
ssumes the following mortgage premia: 90% LTV = .52; 95% LTV = .78; 100% LTV = .96.
ssumes a 30-year fixed-rate mortgage.
ssumes a 15-year holding period.
ssumes a mortgage premium of .78 for a 95% LTV.
ssumes 33 percent debt-to-income ratio and a home price of $90,000, the median for low-income borrowers aged 25–44.

5 percent down payment is $25 and about $4,500 in interest costs over fifteen years. With a 12 percent interest rate, the difference in monthly costs is $38 and $10,000 in interest costs over fifteen years.

Even though rolling fees into the mortgage reduces the amount of equity accumulated, it nevertheless allows households unable to cover up-front costs to obtain a loan when they would not otherwise have been able to get one. It therefore provides renters with a chance to build equity through homeownership.

But such methods can be abused by unscrupulous lenders. In fact, abuses by predatory lenders using methods that have a legitimate purpose are increasingly coming to light. These lenders intentionally pressure, mislead, or defraud borrowers in an effort to earn excess fees or to strip them of their home equity. They strip away home equity either through repeated refinances that keep rolling more and more fees into the loan amount or by setting up borrowers to fail in making payments and then ruthlessly foreclosing on them. The full extent of predatory lending is unknown, but the number of victims of these malicious tactics coming forward to community organizations and legal aid groups suggests that its occurrence is not trivial.

These lenders prey on the poor, the elderly, and minorities more than on others because these populations have fewer options and often less information to defend themselves against such tactics. Though clearly distinct from sub-prime lenders that provide people with access to credit they would otherwise be denied by charging rates and fees that reflect the higher expected costs of lending to riskier populations, predatory lenders more easily thrive in an environment in which mortgage interest rates and fees range widely and fees are often rolled into mortgages.

Refinance Behavior

Refinancing also influences wealth accumulation because replacing a higher-cost mortgage with a lower-cost one when rates fall reduces the long-term capital costs of homeownership. Most examinations of refinance behavior model it as part of loan prepayment behavior. Prepayments include both mortgage refinances (refinancing a preexisting loan on a property by replacing it with a new one) and prepayments of loans when a home is sold. Thus, prepayments include both loan repayments triggered by a move and refinances of loans by owners who do not move.

The propensity of low-income borrowers to prepay their mortgages is slightly lower than for high-income borrowers for all racial and ethnic groups, but sharply lower for minorities than for whites. Using all the thirty-year fixed rate loans purchased by Freddie Mac between 1993 and 1997, Van Order and Zorn (2002) found that only 29 percent of black and 31 percent of Hispanic low-income borrowers prepaid their mortgages, compared to 42 percent of low-income white borrowers. Furthermore, in the cases of both blacks and Hispanics, there was a difference of five

percentage points in the prepayment rates of low-income and high-income borrowers. In the case of whites, the gap was seven percentage points.

More troubling, Van Order and Zorn found that differences in prepayment speeds were more pronounced during periods of interest rate declines, when refinancing would have been advantageous, than in periods when rates were flat or rising. Thus, low-income homeowners are even less likely to refinance during periods when doing so would lower their monthly carrying costs and hence raise their financial returns from homeownership. Put another way, what principally drives the lower prepayment speeds of low-income, especially minority, borrowers is their tendency not to capture the benefits of lower rates by replacing high-cost mortgages with lower-cost loans.

Simulating Financial Returns to Homeownership

The general lack of information on the actual financial returns to low-income homeowners is a gap that needs to be filled. As a step in that direction, we simulate average homeownership experiences of low-income homeowners in Boston, Chicago, Denver, and Washington, D.C., over the course of the 1980s and 1990s. Our purposes are (1) to simulate the impact of local house price and rent movements on actual returns, and (2) to simulate the impact of tax policy, sub-prime lending, and refinances on whether it makes better financial sense for low-income homeowners to own or rent over different holding periods.

Financial comparisons are made on the basis of user cost of capital for a typical household owning or renting the same home. The user cost framework is an all-in comparison of the net cost of pursuing each tenure option. Homeowners, for example, incur costs not paid by renters such as transaction costs associated with buying and selling the home, the cost of maintaining the home, the costs of property taxes and insurance, and the cost of servicing the mortgage net of any tax benefits. In contrast, both owners and renters of an equivalent home typically pay utilities, so these costs are assumed to net out.

Because owners' user costs also include the capital gains or losses upon sale of the home, renters are assumed to invest an amount equivalent to the down payment in an alternative investment vehicle.[6] To the extent that owners reap gains from house price appreciation, they serve to make owning financially superior

6. Mathematically, the user cost of capital (U_C) for homeownership over n years is:

$$\Sigma U_C = \sum_{i=0}^{nn}\{(1-t)[m_i + P_i(pr)_i] + P_i(d_i + op_i) + P_0(1-\alpha)(a)_i + pmi_i\} + P_i(tr_0 + tr_n) + B_t(tr_t) - [g + t(nhd)]$$

Where P_i = house value in year 'i'; $G = (P_n - P_0)$ = house value in sale year minus house value in purchase year; T = owner's marginal tax rate; M = mortgage interest paid annually;

to renting only if these gains exceed what could have been earned by a renter household invested in the alternative over the same period. Ultimately, the user cost framework makes it possible to compare the financial position of owners and renters of an identical dwelling over various holding periods in order to determine which was a better investment.

Short of obtaining detailed information on all these variables for individual households in a variety of different neighborhoods and metropolitan areas, it is possible to simulate the experience of a typical homeowner in different metropolitan areas at different points in time. Doing so, however, requires several simplifying assumptions, some of which could be relaxed with the availability of appropriate data.[7] The relative cost of owning compared to renting is estimated for four metropolitan areas on the basis of information about metropolitan house prices, rents, and property tax and insurance rates from 1982 to 2001. The four cases were selected to represent differing combinations of house price volatility and absolute price gains because house price changes are a dominant force in determining whether owning is more desirable than renting. Boston is an area of high volatility/high house price gain, Chicago an area of low volatility/moderate gain, and Denver and Washington, D.C., areas of moderate volatility/moderate gain over our study period (table 9.3).

The financial attractiveness of owning versus renting is influenced by several factors that, as noted earlier, may vary with the income of the household. While we assume that house appreciation rates, leverage ratios, and transaction and

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Pr = annual local property tax rate; D = annual depreciation rate; Op = operating cost (maintenance + insurance); Pmi = annual cost of mortgage insurance; B = outstanding balance of mortgage; Tr_0 = transaction costs as share of house value in year of purchase; tr_n = transaction costs as share of house value in year of sale; tr_r = transaction costs as share of house value in year of refinance; A = rate of return on alternative investment; = the fraction of house value financed; and Nhd = non-housing deductions taken by owners.

7. In this case, we assume that home price and rent appreciation rates within a metropolitan area are the same across all value segments. Of course, we know that this is often not the case, and the analysis could be extended by using information on the actual appreciation rates of different value segments in different cost areas or matched repeat sales data for purchasers of low-cost homes. We also assume that all borrowers finance with a thirty-year fixed rate mortgage, put 10 percent down, incur the same average transaction costs as a share of home value, spend the same fraction of house value on maintenance, do not pay capital gains, and pay the same metropolitan average property tax and property insurance rates. In order to compare the user cost of owning to the costs of renting and investing the down payment elsewhere, we further simplify by assuming that the down payment would in all cases be invested in Treasuries that match the holding period. Finally, we estimate the difference between owning and renting a comparable unit in a particular year and metropolitan area, and then advance the prices by the Freddie Mac Conventional Mortgage House Price Index (adjusted for presumed overstatement of gains as per Abraham and Schaumann 1991) and the rents by the Bureau of Labor Statistics's Owner's Equivalent Rent Index, respectively.

2. Impact of Interest Rate (IR) and Financing Points on Debt Service

MIP	Points Financed	Starting Balance ($)	Monthly Payment[d] ($)	Total Interest[c] ($)	Qualifying Income[e] ($)	Taxes and Insurance (1.5%; $)	Mo
0.78	1	86,355	620	137,005	26,487	1,295.33	
0.78	3	88,065	633	139,714	27,012	1,320.98	
0.78	5	89,775	645	142,434	27,536	1,346.63	
0.78	7	91,485	657	154,142	28,061	1,372.28	
0.78	1	86,355	744	181,416	30,974	1,295.33	
0.78	3	88,065	759	185,006	31,587	1,320.98	
0.78	5	89,775	773	188,615	32,200	1,346.63	
0.78	7	91,485	788	192,207	32,813	1,372.28	
0.78	1	86,355	940	252,208	38,123	1,295.33	
0.78	3	88,065	959	257,212	38,878	1,320.98	
0.78	5	89,775	978	262,177	39,633	1,346.63	
0.78	7	91,485	996	267,181	40,388	1,372.28	

e for Tables 9.1 and 9.2: Author's compilation.

umes the following mortgage premia: 90% LTV = .52; 95% LTV = .78; 100% LTV = .96.

umes a 30-year fixed-Rate mortgage.

umes a 15-year holding period.

umes a mortgage premium of .78 for a 95% LTV.

umes 33 percent debt-to-income ratio and a home price of $90,000, the median for low-income borrowers aged 25–44.

Table 9.3. Housing Market Price Trend Characteristics, 1983–2000

	Standard Deviation	Average	Minimum	Maximum	Range
Small Gain					
Houston	12.0	95.4	75.5	127.5	51.9
New Orleans	19.7	115.5	94.6	160.8	66.2
Kansas City	25.0	134.9	100.0	197.2	97.2
Miami	28.1	133.5	96.2	192.5	96.3
St. Louis	28.9	152.6	100.0	218.3	118.3
Minneapolis	30.4	134.7	97.0	217.3	120.3
Atlanta	30.4	149.5	100.0	223.2	123.2
Moderate Gain					
Pittsburgh	34.4	154.0	100.0	215.6	115.6
Denver	35.4	127.2	96.3	225.8	129.5
Washington	36.3	171.1	100.0	235.4	135.4
Los Angeles	39.1	169.0	100.0	228.4	128.4
Cleveland	41.2	159.2	100.0	235.2	135.2
Philadelphia	42.1	187.3	100.0	251.3	151.3
Chicago	51.2	187.1	100.0	285.8	185.8
Large Gain					
New York	54.3	228.8	100.0	345.8	245.8
Boston	56.5	228.8	100.0	375.1	275.1
Detroit	56.6	176.4	99.4	298.7	199.3
Portland	58.4	158.5	95.1	260.9	165.8
Seattle	61.0	181.2	100.0	306.6	206.6
San Francisco	64.5	201.1	100.0	379.3	279.3

Source: Freddie Mac Conventional Home Price Index.

maintenance costs as a fraction of home values are the same regardless of the income of the homeowners, we vary other factors to simulate their effects. Tax effects are simulated by assuming that mortgage interest payments are deductible and then assuming that they are not (because deductions are not itemized by most low-income homeowners). Sub-prime lending effects are simulated by assuming that interest rates are prime or prime plus some additional percentage points. Refinance behavior is simulated by assuming that homeowners refinance at prime interest rates when it is advantageous to do so in 1986 or 1993 and then assuming that they do not.

Results are expressed in two ways. One is the probability of buying in a year in which owning would be financially more advantageous than renting. This probability simply reflects the number of years during the study period when the user cost of owning was lower than the user cost of renting. Our data run from 1983 to 2001, allowing us to examine sixteen holding periods (beginning from 1983 to 1998) for three-year holders, fourteen holding periods (beginning

from 1983 to 1996) for five-year holders, and twelve holding periods (beginning from 1983 to 1994) for seven-year holders.

As shown in figure 9.2, the simulation is conducted for six scenarios. A "base or best case" assumes that mortgage interest and property taxes are deducted at the effective tax rate of taxpayers earning the median household income in each of the four metropolitan areas. It assumes that the benefit of the mortgage interest and property taxes deducted is over and above the standard deduction. It further assumes that the buyer is purchasing a home at half the median home price. That was $41,000 in Boston in 1983 and $139,000 in 2001, $36,000 in Chicago in 1983 and $97,000 in 2001, $48,000 in Denver in 1983 and $103,000 in 2001, and $51,000 in Washington, D.C., in 1983 and $113,000 in 2001.

A second, "no MID" case assumes that mortgage interest and property taxes are not deducted and so there is no marginal tax benefit to owning other than the waiver of capital gains taxes upon sale. A third case, "prime plus 2," assumes that the owner pays an interest rate of two percentage points above whatever the average prime rate was in the year of purchase. It also assumes no deduction benefits. A fourth "prime plus 5" case is the same as the "prime plus 2" but with a higher-cost loan. The fifth and sixth cases repeat the "prime plus 2" and "prime plus 5" cases but assume that borrowers do not refinance when doing so is in the money.[8]

Results

The results for the base case make plain that the volatility and level of house price gains in a market play an important role in determining the odds of buying

8. There are five principal drawbacks to these scenarios. First, interest rates vary significantly over the course of a year. Thus, actual rates at which owners would have purchased their homes would have deviated from these averages. Second, the holding periods are short, while a significant fraction of low-income homeowners hold for longer periods. This means that the potential impact of failure to refinance when it is advantageous to do so would be significantly greater for longer holding periods. Third, home price appreciation rates are assumed to be uniform within each metropolitan area when in fact neighborhood differences in price appreciation rates are common. Fourth, we examine only single spells of homeownership. Many who buy and then re-buy may lose money on one home but more than make it up on another.

Finally, the maximum holding period we look at is seven years. The odds of benefiting from homeownership are likely much higher over longer holding periods. Longer holding periods (of fifteen to thirty years) increase the chances that owning will be a better choice for several reasons. First, they increase the chances that interest rates will decline enough to make a refinance advantageous. Second, they increase home equity because principal balances are paid down at faster rates later into the term of the mortgage. Third, home prices in most places increase at or above the positive real rate of income growth over the long run (Case and Schiller 2003). Still, there are places, such as Houston, where even holding periods of fifteen years or more are insufficient to overcome an ill-timed purchase. In Houston, inflation-adjusted home prices still stood in the early 2000s below where they stood in 1985.

in a year in which it ultimately pays off to own. Boston's volatility results in the greatest chance of coming out ahead by buying in one year and then selling three years later. There, buying in two-thirds of the years between 1993 and 1998 and then selling after three years would have been a better choice than renting (figure 9.2). The higher volatility of home prices in Boston, however, increased the chances of selling during a downslide for the longer five- and seven-year holding periods, thereby reducing the chances of succeeding over renting relative to shorter holding periods.

A similar trend holds for Denver, where three-year holds and seven-year holds result in the same fifty-fifty chance of coming out ahead by owning. In contrast, in Chicago and Washington, D.C., longer holding periods resulted in greater likelihood than shorter periods of buying in a year when owning would have been the better financial choice. This is especially true for Chicago, where steady, moderate gains lifted the chances of coming out ahead by buying and holding for seven years to fully ten of the twelve possible years between 1983 and 1994. Overall, renting would have produced a better result than buying a home in each of the four metropolitan areas in many years and for many different holding periods.

In terms of the size of the positive or negative returns associated with buying or renting a low-cost home in the four metropolitan areas, in the base case the odds of earning larger positive payoffs lean slightly toward owning over renting in all four areas. The higher volatility of home prices in Boston elevates the financial stakes involved in the tenure decision.

Thus, whether owning or renting makes sense for low-income homeowners in the first instance depends critically on what happens to home prices over the period when they own the home, which in turn is correlated with price movements in the metropolitan area. Because the future course of home prices is uncertain and may not be well predicted by past trends, there is an inevitable and large financial uncertainty in opting whether to own or rent.

The inability to deduct mortgage interest and property taxes over and above the standard deduction reduces the chances that low-income homebuyers come out ahead of renting only in Boston over three- and five-year holding periods and Washington over three-year holding periods. The impact of both not being able to deduct mortgage interest and paying higher than prime rates, however, is more dramatic. An interest rate two percentage points higher and no value to the tax deductions dramatically drive down the odds of coming out ahead by owning in Chicago, where volatility was low and gains moderate. In the other metropolitan areas the impact is smaller because the choice between owning and renting was rarely so close in terms of financial returns. But at an interest rate five percentage points higher, the share of years in which owning comes out ahead of renting is driven down in all four metropolitan areas and across all holding periods. In fact, it reduces the chances of buying in a year when owning yields a positive return relative to renting to a high of just 37.5 percent in Boston for three-year holding

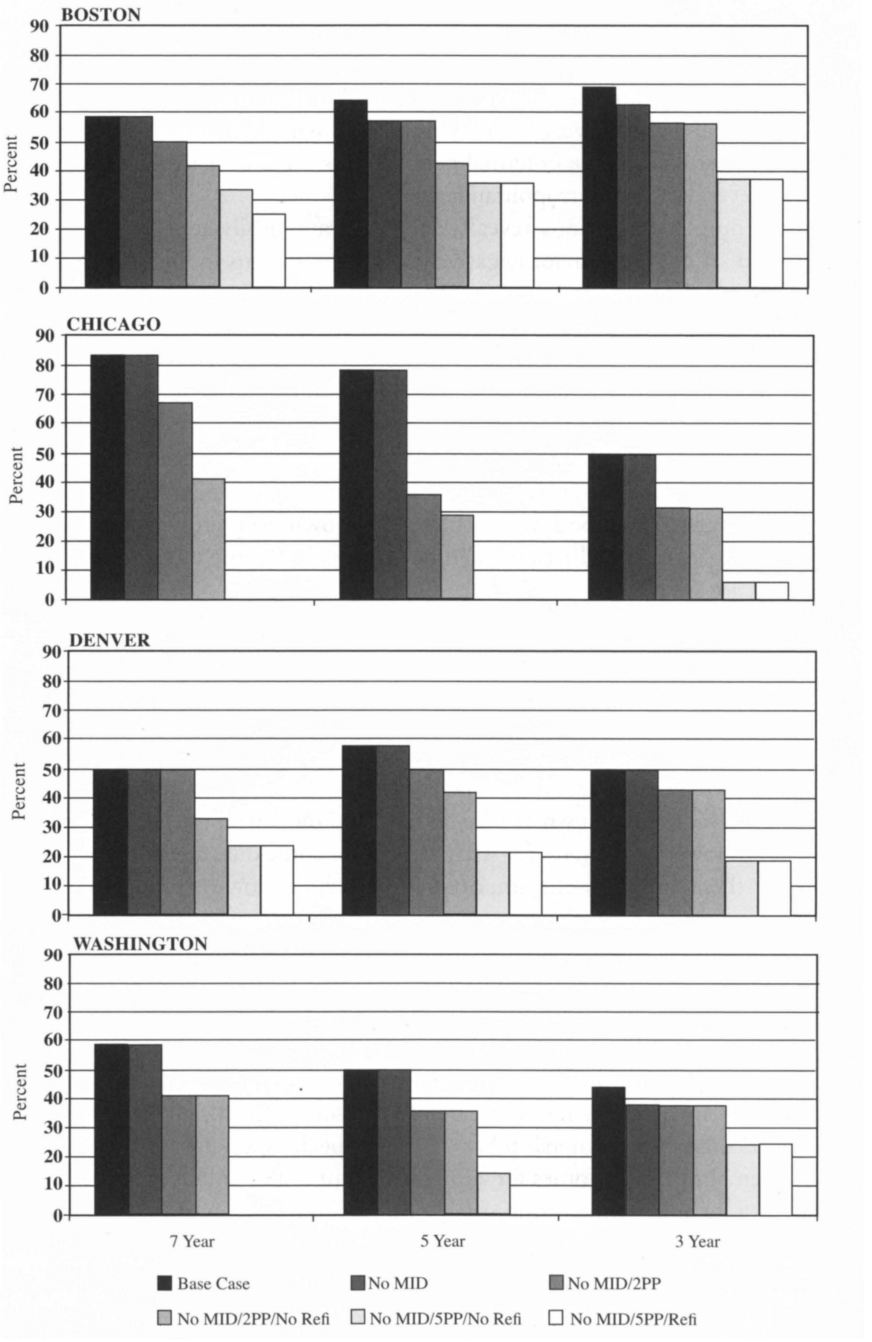

Figure 9.2. Results of the six simulations for four cities. Opportunity cost calculated on the basis of returns to renters holding ten-year Treasuries. Periods began 1983–1998 for three-year holders, 1983–1996 for five-year holders, and 1983–1994 for seven-year holders. Authors' tabulations of the American Housing Survey and unpublished data underlying the Bureau of Labor Statistics' Owners Equivalent Rent Index.

periods to a low of none of the time in Chicago for five- and seven-year holds and for Washington in seven-year holds. Failure to refinance when the option is in the money further reduces the potential benefits of owning over five- and seven-year holds in several of the metropolitan areas.

These simple simulations reveal just how dramatically mortgage terms, tax policy, and refinance behavior negatively affect the returns to low-income homeownership. Unless low-income homebuyers received prime loans, they stood a strong chance of being better off renting in many of the years when they might have decided to buy. Unable to take advantage of the mortgage interest deduction, low-income homeowners who paid rates even two percentage points over prime and did not refinance when interest rates fell would have done better renting far more than half the time for three-, five-, and seven-year holding periods in all four metropolitan areas studied. This finding stands in stark contrast to the much higher likelihood of benefiting from owning even without benefit of the mortgage interest deduction when borrowing at a prime rate and refinancing when it is advantageous to do so at prime rates.

Conclusions

Low-income homeowners typically gain less from owning than high-income owners who buy and sell in the same years because they get no additional value from deducting mortgage interest and property taxes. Those who end up with sub-prime loans benefit far less than owners who do not. And those who miss opportunities to refinance to lower prime rates for whatever reason come out further behind still.

Given these findings, the importance of helping low-income homeowners avoid sub-prime loans and terms and take advantage of opportunities to refinance become apparent. Also apparent is the fact that the failure of the tax code to bring comparable benefits to non-itemizing homeowners as itemizing homeowners leaves the former less advantaged. In addition, given the considerable number of years during the study period when renting was a better option than owning over a variety of shorter holding periods, the constant drumbeat for expanded low-income homeownership should be carefully and discriminatingly evaluated.

Low-income homeownership has a lot of appeal, especially for those who intend to remain in their homes for a long time, but it also entails substantial risks. Faced with a choice of investing small amounts of money in other ways such as in Treasuries and indexed stock funds or investing the same amount in housing on a highly leveraged basis, investing in a home is undeniably attractive, though perhaps not the ideal risk diversification strategy. The payoffs can be huge and favor homeownership asymmetrically to the payoffs from renting, especially if the owner defaults rather than covers the full loss on the home. This is largely because few low-income people are able to make other investments on such a leveraged basis.

Thus, the real question is not simply whether we should promote low-income homeownership but what can be done to help inform all interested homebuyers—low-income individuals among them—so that they make the choice best suited to them, as well as what can be done to ensure that those who select homeownership do so at the lowest possible cost and with the greatest chances of maximizing their risk-adjusted returns (Wiranowski 2003). The new measures of success should include (1) increasing the share of low-income borrowers who get the lowest-cost credit for which they qualify, (2) increasing the share of low-income borrowers who are coached to improve their credit histories so that they can qualify for lower-cost credit, (3) increasing the share of borrowers who have funds to fall back on in emergencies, and (4) increasing the share of borrowers who refinance their mortgages when it would benefit them to do so. To achieve these goals will require financial education, help for low-income borrowers to save enough to have cash cushions against budget and income shocks, and products that help them mitigate risks such as house price declines and income disruptions by making up mortgage payments they would otherwise be temporarily forced to miss.

Acting on these new goals will take a material realignment of the efforts of community organizations in low-income areas that are dedicated to serving their constituents. At present most of these community-based organizations are focused on serving homebuyers by connecting them with down payment assistance programs, low-cost mortgages, and homebuyer education. They serve a very small number of homebuyers in their communities and are not oriented to reaching out to existing homeowners in addition to prospective buyers. Yet around them mortgage brokers offer a wide range of loan products designed to meet the credit needs of those who fail to qualify for the special mortgage programs the community groups offer or who opt not to work through such groups.

Community groups could expand their influence and serve a greater share of their constituents if they offered broader financial literacy courses and marketed them to existing homeowners as well as homebuyers. These courses would advise participants on how to select loan products, help them assess the lowest-cost product for which they can qualify, and explain when they should consider refinancing their mortgage. In addition, community groups could help low-income individuals understand the importance of their credit histories, how they can improve them, and how they can obtain information on their current credit score.

But in order for community groups to play such an expanded role, they will need increased financial support. Homebuyer education is costly, and even lenders prepared to pay a fee for the service seldom provide enough to cover the cost of quality education. Imagine, then, expanding these programs to reach out beyond homebuyers to current homeowners and to provide an enriched curriculum. The costs would escalate dramatically and exceed the already insufficient funds available for homebuyer education from the Department of Housing and Urban Development. The government and lenders must therefore step up to the plate in ways

they have not done before to support the public good of educated homebuyers and homeowners.

Though not considered in this analysis, others have pointed to the importance of reserve funds for helping to ensure that homeowners have adequate savings to deal with emergencies after they have bought a home. Lenders must consider whether it is sound for them to waive the requirement that buyers have cash reserves on hand equal to at least two months of mortgage payments when they close on a home sale. But all lenders cannot be counted on to do this even if some choose to do so. Undoubtedly, absent legislation that requires it, some lenders will offer products that waive all cash reserve requirements. Therefore, community organizations ought to consider establishing on behalf of homeowners emergency reserve escrow accounts that can be tapped only to fix a home or to avert a loan default. To encourage homeowners to save, these same groups could provide some form of match akin to the matches now used to encourage the use of Individual Development Accounts.

Of course, beyond this, the government could take action to offer comparable tax benefits to low-income homeowners who do not now benefit from the mortgage interest deduction. And it could regulate financial institutions in ways that help increase the chances that low-income homeowners will succeed. But the prospects that the government will extend greater tax benefits to all low-income homeowners are poor, and regulations intended to help can end up restricting credit or adding to its costs in unpredictable ways.

The next step in extending the analysis presented here would be to develop additional simulations that examine the possible financial trajectories of households with varying housing endowments and investment behaviors. Ideally, the volatility of home prices in such a model would reflect the volatility observed among low-income homeowners or in low-income areas within particular metropolitan areas rather than for each metropolitan area as a whole, as is done in this chapter. The review of the literature suggests that intra-metropolitan variations in price volatility can be significant.

Another direction for future research is to explore the possibility of using the American Housing Survey to create a frequency distribution of low-income, middle-income, and high-income returns to homeownership. The AHS contains information on many of the important drivers of homeownership returns, including price at time of purchase and sale, mortgage terms, insurance payments, property tax payments, refinance behavior, and repair and remodeling expenditures. While it does not contain information on transaction costs and alternative investments of down payment funds, these could be estimated, as could the rent changes for roughly comparable homes. While still providing estimates, such a study would move us closer to an understanding of the historical experience of low-income homeowners that could help inform future policy.

PART V

Social Perspectives

As discussed in chapter 1, supporters often claim that affordable homeownership programs will have a variety of social benefits. Some of those benefits have to do with individual feelings and self-perceptions such as satisfaction levels and self-esteem, while other have to do with access to neighborhoods that offer improved opportunities for social advancement.

Many of the explanations for the positive social-psychological benefits of homeownership refer to the importance that our society places on ownership in general and homeownership in particular. As discussed in chapters 1 and 2, our culture tends to equate homeownership with a variety of positive traits. Homeowners are often viewed as more successful, more responsible, better citizens, and even more trustworthy than renters. It is reasonable to expect that as members of that society, both homebuyers and renters internalize these societal views and that they impact how people feel about themselves. Those feelings, in turn, might be expected to affect a person's self-esteem, satisfaction with life, and other social-psychological constructs.

At the same time that homeownership signifies a certain level of achievement, it is often seen as a "step up the social ladder." Areas with high proportions of homeowners are in most instances more desirable than those with high proportions of renters: desirable not only in terms of the quality of the housing but also in terms of offering greater access to educational and employment opportunities. Thus, affordable homeownership may allow low-income families to access these more desirable areas and take advantage of the opportunities available there.

The main problem with both of these arguments as they apply to affordable homeownership is that there is little empirical evidence to support either of them. Although the social-psychological impacts of homeownership have been examined in a number of research studies, in most instances the subjects of these

studies are drawn from the general population of homeowners, not specifically from low-income homeowners, and there are good reasons to expect that, due to limited resources and limited choice of homes, the social impacts of homeownership may be different for low-income owners. Research on the characteristics of neighborhoods in which low-income families purchase homes is equally limited and scarce.

Thus, the two chapters in this section report on research projects that are designed to assess the impacts of homeownership on lower-income households. In chapter 10 William Rohe, Roberto G. Quercia, and Shannon Van Zandt report on a study of persons who participated in homeownership training classes in several communities across the country. They identify the characteristics of the participants who go on to buy homes and assess the social-psychological impacts of buying by comparing the homebuyers to the continuing renters. They find support for a number of the claims made about the social benefits of homeownership, but many of those benefits apply only to homebuyers who have sufficient resources to maintain their homes adequately and who bought in socially healthy neighborhoods.

In chapter 11 Carolina Katz Reid reports on a study that uses both national and local data to assess whether lower-income homeowners buy homes in neighborhoods that offer better social conditions than the ones in which they rented and whether those neighborhoods improve over time. She finds that for most low-income households, homebuying does not lead to improvements in neighborhood conditions, and their new neighborhoods show little improvement over time. Moreover, in a series of interviews with new homebuyers, she explores the reasons behind their choice of neighborhoods in which to buy and discusses the policy and program implications of these findings.

10

The Social-Psychological Effects of Affordable Homeownership

WILLIAM M. ROHE, ROBERTO G. QUERCIA,
and SHANNON VAN ZANDT

The social-psychological benefits of owning versus renting a home have been extolled by policymakers for many years, and there is substantial research to support those views. Research findings have tended to support the claim that homeownership has a positive impact on how people feel about themselves. It has, for example, been found to be positively associated with one's sense of self-esteem and life satisfaction (Clark 1997; Rohe and Stegman 1994b; Rossi and Webber 1996). Homeownership, it is argued, is a sign of success in American society; thus, homeowners have a greater sense of accomplishment than those who do not own their homes (Rohe, McCarthy, and Van Zandt 2000). Other research has shown that homeownership is associated with participation in certain local voluntary organizations, particularly neighborhood organizations (Rohe and Stegman 1994a; Rohe, McCarthy, and Van Zandt 2000). Compared with renters, homeowners are thought to have a greater interest in society in general and in local neighborhood conditions in particular. Thus, they are more likely to join local voluntary organizations, which are important for the health of communities (Smith 1966; Verba and Nie 1972).

That research, as well as the research on the economic impacts of homeownership, has been used to justify federal, state, and local policies to encourage homeownership among households of modest income. Since the early 1990s, Republican and Democratic administrations alike have favored policies that support homeownership over those that support rental housing. In 1994, for example, the Clinton administration launched the National Homeownership Strategy, which sought to increase homeownership among underserved groups such as minorities and single-parent households. The Bush administration's American Dream Downpayment initiative was established to provide first-time low-income homebuyers with grants averaging $5,000 for down payments and closing costs.

In a statement after the passage of this House bill, Representative Bob Ney of Ohio, chair of the Housing and Opportunity Subcommittee, said studies show that "home owners are more attached to their communities and more active in community affairs: they take better care of their property; experience greater property value appreciation; and report higher life satisfaction and self-esteem" (National Low-Income Housing Coalition 2003b).

Yet the research supporting the benefits of homeownership has largely been conducted on general samples of homeowners, which are dominated by middle- and upper-income households. Compared to lower-income homeowners, higher-income owners are more likely to buy homes that are in better condition and are located in more attractive neighborhoods. Moreover, higher-income households are better able to afford home repair and maintenance. Thus, low- and moderate-income homeowners may have a qualitatively different homeownership experience due to difficulties in keeping up with housing-related payments, differences in the quality of the homes being purchased, and/or differences in the characteristics of the neighborhoods in which they buy homes.

Study Objectives

The research described in this chapter had two major objectives. First, we sought to assess the social-psychological impacts of buying a home on the participants in a homeownership training program. The social-psychological impacts of homeownership on lower-income buyers may differ from those on higher-income buyers because lower-income buyers have more variable income and fewer savings. They also are more likely to buy older homes and homes in less desirable neighborhoods. More specifically, this research looks at the impacts of buying a home on life satisfaction, satisfaction with neighborhood, self-esteem, participation in voluntary organizations, and the size and composition of social support networks of lower-income homebuyers.

Second, given that homeownership training courses are an important component of initiatives to expand homeownership among lower-income households, we sought to assess the proportion and characteristics of homeownership course graduates who go on to buy homes. Homeownership training courses are typically offered by nonprofit housing organizations and are designed to educate participants on the homebuying process, the responsibilities of homeownership, and the credit, income, and savings needed to qualify for a mortgage loan. We know very little, however, about the proportion and characteristics of participants who go on to buy homes. How important are characteristics such as education, age, number of children, savings, amount of debt, and other factors in determining who is able to buy a home and who is not? We hope that identifying the factors associated with successfully buying a home will help the staff of local programs assist their clients more effectively.

Study Methodology

To better understand the impacts of homeownership on low- and moderate-income persons and to identify the factors that predict who buys a home and who does not, we surveyed, at two points in time, persons who completed homeownership training courses offered by eight nonprofit organizations across the country. Those eight organizations were chosen from the seventy organizations that participated in the NeighborWorks Homeownership Pilot Program to achieve variation in the size and geography of the cities served as well as in the programmatic aspects of the pilot program (see table 10.1). The NeighborWorks Pilot Program provided these organizations with funding to expand their homeownership education programs as well as other services for first-time homebuyers.

The first of the two surveys was administered by the trainers at the end of the homeownership training courses offered by the participating organizations between November 1999 and December 2000.[1] A total of 1,433 surveys were completed by graduating participants. In August 2002 a follow-up mail survey was sent to a total of 1,213 persons for whom we had addresses.[2] After repeated

Table 10.1. Site Characteristics

Site	Funding Category	Region	City Size	Year Founded	Staff Size
NHS Salisbury	A	South	21,000	1994	4.5
NHS Richmond	A	South	200,000	1981	12
NHS Santa Fe	A	West	56,000	1992	12
NHS Milwaukee	A	Midwest	630,000	1993	20
Chattanooga Neighborhood Enterprise	B	South	150,000	1986	44
NHS New Britain	B	Northeast	75,000	1980	7
NHS New Orleans	B	South	500,000	1977	12
NHS Sacramento	B	West	375,000	1987	17

Source: Courtesy of Neighborhood Reinvestment Corporation.

1. Survey administrators were provided with one-on-one training by project researchers during site visits and were also provided with a video that gave instruction on how to administer the survey.

2. Names and addresses were identified from several sources, most notably the U.S. Postal Service's National Change of Address Database, which provides current address on individuals and households that have filed "change of address" cards with the USPS. Other methods of locating respondents included contacting the organization that originally provided homeownership education to them (some organizations keep much better records than others) and conducting Internet and paper searches of phone directories.

Table 10.2. Demographic Characteristics of Home Buyers and Continuing Renters

	Baseline (2000)		
	Buyer	Nonbuyer	Total
Gender			
Male	133 (39.7%)	37 (26.6%)	170 (35.9%)
Female	202 (60.3%)	102 (73.4%)	304 (64.1%)
Race			
Black	113 (33.6%)	77 (55.4%)	190 (40.0%)
White	134 (39.9%)	26 (18.7%)	160 (33.7%)
Hispanic	55 (16.4%)	30 (21.5%)	85 (17.9%)
Other	34 (10.2%)	6 (4.4%)	40 (8.4%)
Marital status			
Married	151 (45.1%)	39 (28.1%)	190 (40.1%)
Formerly married	78 (23.6%)	49 (35.3%)	127 (27.0%)
Never married	105 (31.3%)	51 (36.7%)	156 (32.9)
Number of children	1.21	1.40	1.26
Education			
Some high school	26 (7.7%)	14 (10.1%)	40 (8.4%)
High school grad	77 (22.9%)	43 (30.9%)	120 (25.3%)
Some college	103 (30.7%)	53 (38.1%)	156 (32.8%)
College graduate	75 (22.3%)	18 (12.9%)	93 (19.6%)
Graduate school	55 (16.4%)	11 (7.9%)	66 (13.9%)
Employed			
Full time	281 (85.2%)	109 (80.1%)	390 (83.7%)
Part time or seasonally	14 (4.2%)	11 (8.1%)	25 (5.4%)
Unemployed	9 (1.7%)	5 (3.6%)	14 (3.0%)
Other	26 (7.8%)	11 (8.1%)	37 (7.9%)
Age	37.6	37.7	37.6
Average income	$30,300	$24,256	$28,528
Average savings	$3,402	$2,158	$3,037
Average monthly debt payment	$398	$431	$408
Parents owned home	239 (71.3%)	91 (65.5%)	330 (69.6%)

Source: Calculations based on surveys of graduates of homeownership training courses in eight cities. Compiled by the authors.

attempts to get study participants to return the surveys, we ended up with 477 completed surveys, a 33 percent response rate.[3]

Each survey included questions designed to assess the financial impacts of homeownership, including monthly housing costs, savings, and debt, as well as questions designed to assess the social impacts of homeownership, including self-esteem, life

3. Respondents received four contacts: a first mailing including the survey and a $2 incentive payment; a follow-up thank-you postcard; a second complete mailing of the survey to addresses from which no response had been received; and a last-chance postcard. To account for differences

and neighborhood satisfaction, social support networks, and civic participation. Questions on the social characteristics of the participants—such as income, marital status, and age—were also included in each questionnaire.

The characteristics of persons in the sample at the time of the first survey are shown in table 10.2. Almost two-thirds of the sample consists of women. The data on the racial and ethnic composition show that 40 percent are black, 34 percent are white, 17 percent are Hispanic, and the remainder are of other ethnicities. Looking at marital status, we found that 40 percent are married, 27 percent were previously married, and 33 percent have never been married. The data on education show that 8 percent do not have a high school diploma, 25 percent have only a high school diploma, 33 percent have some college, 19 percent have college degrees, and 14 percent have graduate degrees. As might be expected, a full 84 percent of the sample have a full-time job. The average household income of persons in the sample is $28,499 and the average age is thirty-eight.

Who Bought Homes?

Before we assess the social impacts of affordable homeownership, it is important to consider the characteristics of program graduates who actually purchased homes. Of the 477 persons in our sample, 343 (72 percent) had become homeowners by the time of the second survey, while 134 (28 percent) had not. It is not very likely, however, that such a large percentage of persons bought homes within two years of graduating from one of the homeownership courses. This high percentage is likely due to a higher response rate for those who bought homes compared to those who did not. If we assume that all of the non-respondents were non-buyers, the rate of home purchase would be 24 percent. Thus, the actual percentage of homebuyers is somewhere between 24 and 72 percent.

How Do the Characteristics of Buyers and Non-Buyers Differ?

One of the goals of this research is to identify the factors that predict who buys a home and who does not. To address this question we first present simple descriptive statistics on the characteristics of buyers versus non-buyers. Then we enter those characteristics into a multiple regression model to see which characteristics are the most powerful predictors of homebuying.

The results of this analysis show that compared to those who did not buy homes, homebuyers were more likely to be male, white or of an "other" race, married, more highly educated, and employed. They were also more likely to

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between those who responded to the baseline survey and those who responded to the follow-up survey, a weight was constructed using characteristics on which the two samples differed significantly: race, education, marital status, citizenship, and whether the respondent had been more than thirty days late making a debt payment.

Table 10.3. Predictors of Home Buying: Logistic Regression Results

Predictor	Model 1		
	B	Sig.	Exp (B)
Constant	−.165	.803	.848
High school education	−.324	.170	.724
Married	.589	.022**	1.802
Black	−.551	.022**	.577
Working	.393	.172	1.481
Parents owned home	−.064	.791	.938
Male	.305	.220	1.356
Number of children	−.133	.167	.875
Age	.010	.348	1.010
Monthly debt payment	.000	.408	1.000
Savings	.000	.052*	1.000
Annual income	.000	.059*	1.000

Source: Calculations based on surveys of graduates of homeownership training courses in eight cities. Compiled by the authors.

*p<0.1; **p<0.05; ***p<0.01.

have grown up in a house that was owned by their parents. Homebuyers also had higher incomes ($30,262 versus $24,256), more savings ($3,402 versus $2,158), and less debt ($398 versus $431). As a group the homebuyers were no older than the non-buyers.

We used multiple regression analysis to identify the strongest predictors of homebuying. The results of that analysis indicate that marital status, race, savings, and income are the best predictors of homebuying (see table 10.3). Married persons and those with more income and savings were significantly more likely to buy homes, while black persons were significantly less likely to purchase homes. The R-square of the preliminary model is a relatively low .147, however, indicating that only 15 percent of the variation in buying is explained by the model. This suggests that there are many other unmeasured variables that influence homebuying.

The Social Impacts of Affordable Homeownership

A second goal of this research was to assess the impacts of homeownership on several social-psychological variables including (1) satisfaction with life, (2) satisfaction with neighborhood, (3) self-esteem, (4) social support networks, and (5) participation in voluntary organizations. The measures of these variables are presented in table 10.4.

To a greater or lesser extent, the impact of homeownership on these variables has been addressed in previous research. That research, however, has two major

Table 10.4. Descriptions of Measures

Concept	Measure
Participation in voluntary organizations	Yes/No indicating participation in: • school organizations (such as the PTA) • church or church-related organizations • social or civic organizations (such as sports leagues, Kiwanis, etc.) • neighborhood organizations (neighborhood associations or citizen watch groups) • professional organizations • other types of organizations
Neighborhood satisfaction	Additive index from four-point rating of: • general appearance of the streets, grounds, and buildings • reputation of the neighborhood • shopping convenience for everyday needs • neighborhood safety • quality of schools • neighborhood as a place to raise children • helpfulness of your neighbors • trustworthiness of your neighbors
Life satisfaction	Four-point scale from very satisfied to very dissatisfied
Self-esteem	Additive index from four-point rating of agreement with: • I am able to do things as well as most other people • I feel confident in my abilities • I usually succeed at the things I do • I rarely accomplish goals I set for myself (direction of scale reversed for analysis) • in general, I do not have the abilities necessary to succeed at most things (direction of scale reversed for analysis)
Social Networks-Support	Index using average number of people indicated in response to the questions: Other than those people living with you, how many people do you know. . . • whom you would ask for a ride somewhere? • whom you would talk to about a personal issue?
Social Networks-Leverage	Index using average number of people indicated in response to the questions: Other than those people living with you, how many people do you know. . .

Table 10.4—*cont.*

Concept	Measure
	• who would be a good source of information about getting a better job? • whom you admire for achieving a major personal or professional goal (such as earning an advanced college degree or starting a business?)

Source: Compiled by the authors.

limitations. First, most of it has relied on cross-sectional research designs that are not well suited to establishing the causal direction of the relationships reported. It is not clear, for example, whether those who participate more in social and political groups are more likely to buy homes, whether those who buy homes are more likely to join such groups, or whether it is a reciprocal relationship. Second, most of the existing research on the social-psychological impacts of homeownership has relied on general samples of homeowners. The results of those studies may or may not apply to low-income homeowners because their homes and neighborhoods may not be as desirable and safe as those of higher-income homeowners.

In this study we have avoided these problems by drawing a sample of first-time, predominantly lower-income buyers and utilizing a longitudinal research design that allows us to assess the impacts of homeownership on the lower-income segment of the homebuying population. Moreover, the longitudinal design is much better suited to establishing the causal sequence of any relationships found. At the time of our first survey, everyone in our sample was a renter. Some of those persons went on to become homeowners while others continued to rent.

To evaluate differences between buyers and continuing renters, we first looked at bivariate differences using a simple t-test (indicated in each table as "no controls"). Then we used multiple regression analysis to evaluate the impact of homeownership on each dependent variable, controlling for the following social characteristics: age, gender, marital status, education, race, employment, number of children, income, whether the respondent moved into a new neighborhood, and the value of the outcome variable at the time of the baseline survey.

We also conducted additional analysis on our sample of homebuyers to see if their ability to make needed repairs on their homes and their assessments of their neighborhood as a good place to raise children affected each social-psychological construct considered. Nearly one-third of the homebuyers reported that they needed to undertake repairs that they could not afford, while one-fifth reported that they were either somewhat dissatisfied or very dissatisfied with their neighborhood as a place to raise children. We ran additional multiple regression

models that included these two variables along with socio-demographic control variables, including age, gender, number of children, marital status, race, employment, education, and income. The results of this analysis indicate whether homeowners who cannot afford repairs or who are less satisfied with their neighborhood as a place to raise children show significantly different levels of the social-psychological constructs considered.[4]

Homeownership and Satisfaction with Life and Neighborhood

Life satisfaction is defined as a person's level of contentment with all aspects of his or her life (Campbell 1976; Fernandez and Kulik 1981). Neighborhood satisfaction is defined as the degree to which a person is content or happy with the specific physical and social conditions in the area around his or her home.

Life satisfaction. There are several reasons to believe that homeowners should express higher levels of life satisfaction than renters. Studies have shown that buying a home is an important life goal for many Americans. Large majorities of renters express a desire to own a home at some point in their lives (Fannie Mae 1998, 1999). Thus, one would expect that achieving that goal would result in greater life satisfaction. Owning a home also allows individuals greater opportunities to customize their homes in ways that suit their tastes. This greater control over their living environments might also be expected to increase life satisfaction. Finally, homeownership is a sign of social status in American society; thus, achieving it might be expected to increase life satisfaction.

Prior research has shown that life satisfaction is related to many factors. Older persons generally express higher levels of satisfaction with their lives, as do married persons, healthier persons, and those who are more socially active (Rohe and Stegman 1994b). Research has also found a positive relationship between homeownership and life satisfaction. Rossi and Weber (1996), for example, report a positive association between homeownership and both self-satisfaction and happiness in an analysis of data from the National Survey of Families and Households. Similarly, in a longitudinal study of the impacts of low-income homeowners and continuing renters, Rohe and his colleagues found that those who bought homes expressed higher levels of life satisfaction than those who did not (Rohe and Stegman 1994b; Rohe and Basolo 1997).

In the present study, life satisfaction was measured by the question "How satisfied are you with your life as a whole these days?" The four response categories ranged from "very satisfied" to "very dissatisfied." The data show that the average level of life satisfaction among the homebuyers in our sample fell slightly

4. The results of the multiple regression models that are the basis for the "with controls" significance levels shown in tables 1 through 7 are available from William Rohe.

from the first to the second survey (see table 10.5). Life satisfaction among the continuing renters, however, fell to a much greater extent. Moreover, the decline in life satisfaction was significantly greater among the non-buyers even after statistical controls were added. The only control variable significantly related to life satisfaction is income. As expected, those with higher incomes reported higher levels of life satisfaction.

Although life satisfaction among homeowners compares favorably to that of continuing renters, it is interesting that buying a home did not increase life satisfaction. The most likely explanation for this result is that life satisfaction among the general population has been declining. Thus, it seems that an increase in satisfaction due to having bought a home offset a more general decline in life satisfaction across the population.

To assess the impacts of not being able to make needed repairs and of being less satisfied with their neighborhood as a place to raise children, we conducted additional analysis on the sample of homebuyers. That analysis indicates that buyers who reported having difficulty paying for needed repairs and those who were less satisfied with their neighborhoods as a place to raise children had significantly lower levels of life satisfaction.

Neighborhood satisfaction. Homeownership might also be expected to influence satisfaction with the neighborhood. There are two ways in which this influence might be exerted. First, because it is much more difficult and costly for owners to move, homebuyers are often more concerned about the characteristics of the surrounding neighborhood. Thus, they are more careful to choose an area with which they will be satisfied. Second, as discussed earlier, homeowners are more likely to become involved with neighborhood organizations which might have positive impacts on neighborhood characteristics and hence on satisfaction with their neighborhood.

Table 10.5. Ratings of Satisfaction with Life and Neighborhood for Home Buyers and Continuing Renters

	Buyers			Renters			Significance	
	T1	T2	Change (%)	T1	T2	Change (%)	No Controls	With Controls
Life satisfaction	3.4	3.3	−3	3.3	2.9	−12	***	***
Neighborhood satisfaction	24.7	26	5	23.5	23.7	1	***	***

Source: Calculations based on surveys of graduates of homeownership training courses in eight cities. Compiled by the authors.

*p<0.1; **p<0.05; ***p<0.01.

In the present study we measured neighborhood satisfaction with an eight-part question. The eight sub-questions asked about the neighborhood's general appearance, reputation, shopping convenience, safety, and quality of schools. They also asked about the helpfulness of residents, the trustworthiness of residents, and the quality of the neighborhood as a place to raise children. Respondents rated each of the dimensions on a four-point scale from "very satisfied" to "very dissatisfied." The answers to these questions were then combined using a simple additive index into an overall measure of neighborhood satisfaction.

The results show that homebuyers, compared to continuing renters, had a larger increase in neighborhood satisfaction (see table 10.5). This increase was statistically significant both before and after the control variables were introduced in a multiple regression analysis. The other variables that were significantly related to neighborhood satisfaction were marital status, income, education, and having moved to a new neighborhood between the first and second survey.

Homeownership and Self-Esteem

Some authors have suggested that homeownership can enhance a person's self-esteem, which in turn can have positive impacts on other aspects of a person's life. Self-esteem is defined as an individual's personal judgment of his or her own worthiness (Coopersmith 1967). Homeownership might influence self-esteem through three mechanisms (Rohe and Stegman 1994a). First, given that homeowners are afforded higher status in American society, they are likely to internalize this status in the form of higher self-esteem. Second, homeowners may take their housing tenure as an indication that they are doing better than many others in society. Third, having achieved an important life goal, homeowners may feel a sense of accomplishment.

The research on the association of homeownership and self-esteem shows mixed results. Several studies utilizing general population samples have found higher levels of self-esteem among homeowners (Balfour and Smith 1996; Rossi and Weber 1996; Clark 1997). Studies utilizing samples of lower-income homebuyers, however, have not found a significant relationship between homebuying and self-esteem (Rohe and Stegman 1994a; Rohe and Basolo 1997).

In the current study, self-esteem was measured by having participants rate on a four-point scale how strongly they agree or disagree with five separate statements. Their responses were then combined into an additive index of self-esteem (with a Cronbach's alpha of 0.70). The results of our analysis indicate a slight drop in self-esteem among the homebuyers and a slight increase in self-esteem among the continuing renters (see table 10.6). This difference was statistically significant before the introduction of control variables but was not significant once we introduced the control variables into the analysis. Age and income were the only two variables significantly related to self-esteem. Both younger and higher-income persons reported significantly higher levels of self-esteem. These

Table 10.6. Ratings of Self-Esteem for Home Buyers and Continuing Renters

	Buyers			Renters			Significance	
	T1	T2	Change (%)	T1	T2	Change (%)	No Controls	With Controls
Self-esteem Index	17.5	17.1	−2	16.8	17.0	1	**	NS

Source: Calculations based on surveys of graduates of homeownership training courses in eight cities. Compiled by the authors.

*p<0.1; **p<0.05; ***p<0.01.

results are consistent with earlier studies of low-income homebuyers, which found no statistically significant relationship between buying a home and the self-esteem of the buyers (Rohe and Stegman 1994b; Rohe and Basolo 1997).

Additional analysis assessing the influence of both perceptions of the ability to afford repairs and the neighborhood as a place to raise children indicate that both these factors affect the self-esteem of homebuyers. In the analysis of the homebuyer sample, we found both variables to be positively and significantly related to self-esteem, suggesting that the ability to purchase a home in a safe neighborhood and to keep it in good repair is essential if homeownership is to have a positive impact on self-esteem.

Homeownership and Social Networks

Each person's social support network is composed of persons he or she relies on for companionship as well as emotional and material assistance. Social networks may serve two important purposes: support or leverage (Briggs 1997). Supportive relationships are used to cope with everyday tasks and for help by those living in poverty; these connections can be extremely important to survival. Leveraging relationships have the potential to change an individual's life circumstances by taking advantage of "who one knows."

Moreover, research has shown that neighbors often make up a sizable portion of one's social support network. Fischer (1982), for example, reports that compared to relatives, co-workers, and friends, neighbors were the group most often called upon for certain types of material support and the second most frequently called upon for certain types of companionship. Prior research has shown that education, income, age, and other demographic factors influence the size of social networks (Marsden 1987).

There is reason to believe that homeownership may positively impact the size of both supportive and leveraging social networks. Due to the greater level of economic and social investment in their neighborhoods, homeowners might be more likely to become involved in either formal or informal neighborhood

Table 10.7. Number of People in the Support and Leveraging Networks of Home Buyers and Continuing Renters

	Buyers			Renters			Significance	
	T1	T2	Change (%)	T1	T2	Change (%)	No Controls	With Controls
Support size	3.0	3.1	3	2.6	2.6	0	*	**
Leverage size	2.9	2.8	−3	2.7	2.6	−4	NS	NS

Source: Calculations based on surveys of graduates of homeownership training courses in eight cities. Compiled by the authors.

*$p<0.1$; **$p<0.05$; ***$p<0.01$.

activities and thus get to know their neighbors. Fischer (1982) and Baum and Kingston (1984), for example, report a positive association between homeownership and informal neighboring. Similarly, research has consistently found that homeowners are more likely to participate in local voluntary associations such as neighborhood organizations (Baum and Kingston 1984; Cox 1982; Lyons and Lowery 1989; Rohe and Stegman 1994a; Rossi and Weber 1996).

In this study social network measures were constructed from survey items that asked respondents about the number of non-family relationships they used for either social support or social leverage. The social support questions asked about the number of persons they knew whom they could ask for a ride somewhere and whom they could talk with about a personal issue. The social leverage questions asked about the number of persons they knew who would be a good source of information about getting a better job and the number they admired for achieving a major personal or professional goal.

The results of our analysis show that homebuying had a significant positive impact on social support network size. On average, homebuyers increased the size of their social support networks while those of the continuing renters stayed the same (see table 10.7). This relationship remained significant at the 0.1 level when controls were introduced in the regression model. Thus, the act of buying a home does seem to result in more supportive social relationships. The follow-up analysis of the effect of not being able to afford repairs and of being less satisfied with the neighborhood as a place to raise children indicates that these variables are not significantly related to the size of the social support networks among homeowners.

The results of the analysis of social leverage networks show that homebuying was not significantly related to the size of those networks (see table 10.7). Only education and income were positively related to the size of social leverage networks. Moreover, neither the ability to afford needed repairs nor satisfaction with

the neighborhood as a place to raise children was significantly related to the size of social leverage networks among the homebuyers. Thus, the results suggest that homeownership expands the size of supportive social networks but not the size of leveraging social networks.

Homeownership and Participation in Voluntary Organizations

Voluntary organizations, such as neighborhood groups, school associations, and civic leagues, play an important role in American society. They supplement the activities of more formal governmental organizations and often address issues or problems that are beyond the influence of government agencies. Voluntary organizations make important contributions to the health of our communities. To be effective, however, voluntary organizations need citizens who are willing to donate their labor.

Why might homeowners be more likely to participate in voluntary organizations? Three explanations have been offered. First, homeowners have an economic investment in their homes, and they seek to protect those investments by contributing to voluntary organizations that are working to keep the community healthy and attractive. Second, since owners tend to stay in their homes longer, they have a greater social attachment to their community, and this motivates them to participate in community-based voluntary associations. Third, certain persons may feel a civic duty to participate in voluntary associations, and those persons are also more likely to purchase homes. This last explanation suggests that the relationship between homeownership and participation is spurious: it suggests that there is nothing about homeownership itself that leads to greater participation.

Previous research on homeownership and participation in voluntary organizations generally supports a positive relationship. After controlling for income, education, and many other factors associated with homeownership, most studies still find a significant, positive association between homeownership and participation in voluntary organizations (Cox 1982; DiPasquale and Glaeser 1999; Kinston and Fries 1994; Rohe and Stegman 1994b). But as mentioned earlier, most of this research relied on cross-sectional research designs and looked at all homeowners, not just lower-income homeowners. Thus, there is still some question as to whether homeownership increases participation in voluntary organizations, particularly among lower-income homebuyers.

In the current study we asked participants in both surveys if they participated in school organizations, church or church-related organizations, social or civic organizations, neighborhood organizations, or professional organizations. The data indicate that compared to continuing renters, homebuyers were more likely to participate in school and neighborhood associations and in any type of voluntary organization (see table 10.8). Once we introduced the control variables, however, the only statistically significant relationship was between homebuying

0.8. Participation in Various Types of Voluntary Organizations by Home Buyers and Continuing Renters

	Number of Buyer Participants			Number of Renter Participants			Significanc
zation	T1	T2	Change (%)	T1	T2	Change (%)	No Controls
	69 (21%)	70 (21%)	1	46 (33%)	28 (20%)	−13	**
	146 (43%)	157 (47%)	4	63 (45%)	60 (43%)	−2	NS
r civic	63 (19%)	67 (20%)	1	11 (8%)	26 (19%)	11	**
orhood	25 (7%)	45 (13%)	5	19 (14%)	11 (8%)	−6	***
onal	87 (26%)	91 (27%)	1	20 (14%)	23 (17%)	3	NS
	30 (9%)	39 (12%)	5	10 (7%)	15 (11%)	4	NS
ganization	251 (75%)	269 (80%)	7	107 (77%)	107 (77%)	0	*

ce: Calculations based on surveys of graduates of homeownership training courses in eight cities. Compiled by the authors.

0.1, ** p<0.05, *** p<0.01.

and participation in neighborhood organizations. Thus, recent homebuyers are more likely to participate in local neighborhood organizations but not other types of voluntary groups. These finding are consistent with those of Rohe and Stegman (1994b).

Conclusions and Policy Implications

In recent years, policymakers have paid considerable attention to expanding homeownership opportunities for low- and moderate-income households. Among other arguments for promoting affordable homeownership, prior research suggests that homeowners are more satisfied with their lives and their neighborhoods, have higher levels of self-esteem, have larger social networks, and participate more in voluntary organizations. Yet research supporting these social-psychological benefits of homeownership has been conducted on a general sample of homeowners, not owners of affordable homes, who are more likely to have trouble maintaining their homes and to buy homes in less desirable neighborhoods. Most prior research has also utilized cross-sectional research designs that are not well suited to establishing the causal order of relationships.

Efforts to expand opportunities for affordable homeownership often involve homeowner education courses that are designed to teach prospective homebuyers about the homebuying process and the responsibilities of homeownership. We know very little, however, about the number and characteristics of the persons who complete these programs and go on purchase homes. Thus, the objectives of the present study were, first, to assess the proportion and characteristics of persons who graduate from homeownership training course and go on to purchase homes and, second, to assess the social-psychological impacts of homebuying on lower-income, first-time homebuyers.

The results of our analysis of surveys completed by prospective homebuyers at the end of homebuying training sessions and again one to two years later suggest that a minimum of one-quarter of the graduates of homeownership training programs go on to buy homes within one to two years of graduation. The actual proportion of buyers, however, is surely greater, but the large number of nonrespondents precludes a precise estimate.

Homebuyers, compared to continuing renters, were more likely to be married and to have higher incomes and more savings. Moreover, even after controlling for income, savings, debt, and many other variables, black program graduates were less likely to have bought homes. This suggests that discrimination in the housing market is still having a negative impact on the ability of minority households to buy homes. Clearly, more needs to be done to level the playing field for prospective black buyers.

After controlling for many factors, our comparison of homebuyers and continuing renters found that buyers of affordable homes were more satisfied with

their lives. Having achieved the important life goal of buying a home and gaining greater control over their living environment seems to have generalized to positive feelings about their lives as a whole. This finding is consistent with earlier research findings on both general samples of homeowners and lower-income homeowners (Rohe and Stegman 1994a; Rossi and Weber 1996).

A closer analysis of the homebuyer sample, however, found significantly lower levels of life satisfaction among buyers who could not afford to make needed repairs and among those who were less satisfied with their neighborhoods as places to raise children. This suggests that the positive impact of homebuying on life satisfaction is dependent on buyers' having the means to make repairs on their homes and on buying homes in neighborhoods that are socially healthy.

Compared to the continuing renters, the buyers of affordable homes were also more satisfied with their neighborhoods. This finding is also consistent with findings from research on general samples of homeowners (Austin and Baba 1990; Baldassare 1982; Galster and Hesser 1982). Purchasing a home appears to have allowed buyers to live in better-quality neighborhoods.

Homebuyers, however, were not found to have higher levels of self-esteem compared to continuing renters. Subsequent analysis of the homeowner sample indicates that self-esteem is related to the ability of homeowners to make needed repairs and to their satisfaction with their neighborhood as a place to raise children. Thus, it seems that it is the condition of the house and neighborhood, rather than tenure status, which is particularly important to a person's self-esteem. This finding is consistent with that of Rohe and Stegman (1994a).

Compared to continuing renters, the homebuyers in our sample were also found to have expanded their social support networks. They reported a modest increase in the number of persons they could rely on for social support, such as being able to ask for a ride or talking about a personal issue. Given that research has shown a strong relationship between the size of social support networks and both psychological and physical health, homeownership would seem to have positive health impacts. We found no relationship, however, between the size of leveraging networks and homebuying. This may be the result of the relative homogeneity of incomes within neighborhoods, limiting the amount of contact buyers of affordable homs have with higher-income persons who are the most likely sources of leveraging social networks.

Finally, we found that homebuying had a significant impact on participation in neighborhood organizations but not on participation in the other types of voluntary organizations considered. This is contrary to most of the existing findings on this topic. One explanation for this finding is that all the homebuyers in our sample had been in their homes less than two years. This may not have been long enough for them to get involved in other types of voluntary organizations. Low-income homebuyers may also find themselves working longer hours to pay

their mortgages, or spending more time making repairs to their homes, allowing less time for participation in voluntary organizations.

Policy Implications

This research suggests that affordable homeownership programs do have positive, albeit modest, impacts on several social-psychological constructs including life satisfaction, satisfaction with neighborhood, the size of social support networks, and participation in neighborhood organizations. This research also suggests, however, that homebuyers who cannot afford to make needed repairs or who are dissatisfied with their neighborhoods do not experience the same positive effects of homeownership.

Thus, organizations involved in affordable homeownership programs, including public, nonprofit, and for-profit organizations, should be careful not to encourage prospective homebuyers without sufficient resources for home maintenance to purchase homes. This is particularly important because poorly maintained homes not only undermine the potentially positive social-psychological benefits of homeownership but also lessen the desirability of surrounding properties. Those involved in promoting affordable homeownership should carefully consider the amount of reserve funds buyers have after they cover the down payment and closing costs. In addition, homeownership counselors might put greater emphasis on educating prospective homebuyers about unanticipated home repair expenses.

The results of this research also suggest that funders and developers of affordable homes should carefully consider the social characteristics of the neighborhoods in which affordable homes are developed, since satisfaction with the neighborhood appears to play an important role in the social-psychological benefits of affordable homeownership. Encouraging people to buy homes in neighborhoods that are not safe or attractive may be doing them a disservice. In addition, homeownership counselors should increase the amount of attention they pay to teaching prospective buyers about the importance of neighborhood conditions in selecting a home.

Finally, although this research finds that affordable homeownership has positive social-psychological impacts on the homebuyers, these results should not be used to denigrate affordable rental housing. There is a great need for well-designed, well-managed rental housing for the millions of households that cannot afford to own a home. The promotion of affordable homeownership should not be pursued at the expense of badly needed rental housing.

11

Locating the American Dream

Assessing the Neighborhood Benefits of Homeownership

CAROLINA KATZ REID

Contemporary policies to promote homeownership among low-income households are often justified on the grounds that owning a home will contribute to asset accumulation and wealth, that it will encourage individual responsibility and self-sufficiency, and that it will promote neighborhood stability, property maintenance, and community involvement (Rohe, McCarthy, and Van Zandt 2000). Yet the extent to which these benefits are realized is highly dependent on location. The housing commodity, unlike cars, stocks, or bonds, is unique precisely because houses are spatially immobile. A home's location determines everything from its present and future value to the quality of nearby schools. As a result, whether or not low-income households benefit from becoming homeowners will depend on the quality of the neighborhoods in which they buy their homes.

Surprisingly, very little is known about *where* low-income homeowners live, and whether or not homeownership leads to neighborhood improvements and expanded access to the amenities that neighborhoods provide. In this chapter I address this gap in the literature by examining whether or not low-income households experience improvements in neighborhood quality as they move from renting to owning, using both qualitative and quantitative methods. I begin by briefly reviewing the literature on the links between homeownership, neighborhood, and opportunity as well as the nascent literature on the geography of low-income homeownership. In the second section I describe my research methodology and provide a description of both the qualitative and quantitative samples used in the analysis. Third, I present the quantitative analysis and examine the changes in neighborhood characteristics when a low-income or minority household makes the transition from renting to owning. Do low-income and minority households move to better neighborhoods when they become homeowners? How do the neighborhoods of low-income homeowners differ from those of their wealthier

counterparts? I also examine whether or not the neighborhoods in which they bought their homes improve over time. I then turn to my interview results and explore how low-income households choose *where* to buy a house. Understanding the factors that shape—and often constrain—where low-income households buy homes is an important step toward understanding why low-income homeowners may live in different neighborhoods than middle- or high-income homeowners. In the conclusion I summarize the key findings and suggest avenues for future research.

Homeownership, Neighborhood, and Opportunity: A Review of the Literature

In a series of articles, Galster and his colleagues have developed the theory of the "metropolitan opportunity structure" for understanding the links between geography and opportunity (Galster and Killen 1995; Galster and Mikelsons 1995; Galster 1996). The "metropolitan opportunity structure" is defined as the set of markets, institutions, social and administrative systems, and networks that can work either to help or to hinder a person's socioeconomic mobility. Individuals make decisions based on their perceived assessment of the opportunity structures available to them, and those perceptions are shaped by everything from their own skills and attributes to the information they acquire through their local social networks or the media. Particularly important in this model is the idea that both the metropolitan opportunity structure and one's perceptions are influenced by geography, especially in terms of the public services, educational quality, role models, labor market information, and peer networks one can access (Galster and Mikelsons 1995). As Galster and Killen (1995, 24) argue, two youths with "identical personal characteristics are unlikely to make the same life decisions if they reside in different parts of the same metropolitan area." In other words, one's actual and perceived opportunities for socioeconomic mobility are fundamentally shaped by where one lives.

The "metropolitan opportunity structure" theory suggests that *where* households buy homes will affect their opportunity set in important ways, and provides the underlying rationale for why homeownership is often viewed as a step up the social ladder. Evidence suggests that the neighborhoods of homeowners are of higher quality and provide more advantages than those of renters (Galster and Mikelsons 1995; Boshara, Scanlon, and Page-Adams 1998; Temkin and Rohe 1998). On the one hand, buying a house, particularly for low-income households, may provide access to better-quality neighborhoods, which in turn may enhance their employment and educational outcomes, reduce their exposure to crime, or increase their sense of well-being. In addition, a move to a neighborhood with increasing property values may contribute to a growth in home equity, which can provide owners with the financial resources to secure

additional education for themselves or their children or facilitate a move into an even better neighborhood over time (Rohe, Van Zandt, and McCarthy 2002). On the other hand, low-income households, and particularly low-income minority households, may be particularly vulnerable to buying homes in disadvantaged neighborhoods, given the combined effect of income and wealth constraints (Gyourko and Linneman 1993; Gyourko, Linneman, and Wachter 1999; Linneman and Wachter 1989); private market segmentation, zoning laws, building codes, and impact fees that all serve to limit the supply of affordable homes (Collins, Crowe, and Carliner 2002); and racial discrimination in housing and mortgage markets (Galster 1992; Yinger 1995).

Despite the importance of location in shaping the homeownership experience, few studies have investigated the role of geography in the determination of tenure choice and outcomes for low-income families (Belsky and Duda 2002). Concomitant with the growing research interest in low-income homeownership, however, three studies have focused specifically on describing the neighborhoods in which low-income homeowners live. In each of these studies, the researchers found that there are significant differences in the types of neighborhoods in which low-income and higher-income households live. For example, Belsky and Duda (2002) analyzed the location of purchases of low-income households in nine large U.S. cities between 1993 and 1999.[1] Using a measure of distance to the central business district, they found that low-income and minority borrowers tended to buy homes in suburban areas and outside low-income census tracts, resulting in some degree of income mixing in the suburbs. But they also found that high-income households avoided buying homes in low-income inner-city census tracts. In contrast, in many of these census tracts more than half of the buyers were low-income minorities, resulting in continued patterns of class segregation.

Guy Stuart, as part of the Harvard Civil Rights Project, examined metropolitan patterns of homebuying in Boston (Stuart 2000), taking into account both race and income. Like Belsky and Duda, he found that although a large proportion of low-income and minority homebuyers were moving out of the central city and into the suburbs, they were doing so in a segregated manner. Almost half of all African American and Hispanic homeowners bought their homes in only 7 out of 126 suburban neighborhoods. In contrast, they made up fewer than 2 percent of the new homebuyers in 94 neighborhoods. Stuart also found that even among whites, high levels of segregation by income exist. Homebuyers with incomes at or below $48,000 bought in very different communities from those with incomes above $90,000. He concludes that "the lowest-income European-Americans are as segregated from very high income European-Americans as African Americans

1. The cities are Atlanta, Detroit, Hartford, Houston, Miami, Milwaukee, Philadelphia, Phoenix, and Portland.

are segregated from European-Americans in the cities and towns outside Boston" (Stuart 2000, 18).

In the only study I found that looked specifically at low-income homeownership and neighborhood quality, Denton (2001) analyzed whether low-income homeowners reside in better neighborhoods than low-income renters. Using 1990 census data for Washington, D.C, she found that on average, poor owners lived in somewhat better neighborhoods than poor renters. For example, both black and white low-income homeowners lived in neighborhoods with higher incomes, fewer single-parent families, and fewer households receiving welfare than did low-income renters. Denton also found, however, that low-income black owners lived in neighborhoods that had higher levels of poverty, older and more derelict properties, and lower house values than their white counterparts, providing some evidence that ownership did not bring the same neighborhood benefits to low-income blacks as it did to low-income whites.

Building on this previous research, I use longitudinal methods to ask two specific questions about the neighborhoods in which low-income homeowners live. First, does buying a home improve the neighborhood characteristics of low-income buyers, and if so, how does this differ for blacks and whites? And second, how do the neighborhoods of low-, middle-, and high-income buyers change after they purchase a home? My research differs from previous studies in four key ways. First, by placing the question of location in a longitudinal context, I am able to see if low-income families move to better-quality neighborhoods when they buy a house, and whether or not their neighborhoods improve or decline over time. In other words, while we may have evidence in the aggregate that owners live in better neighborhoods than renters and that white owners live in better neighborhoods than black owners, we do not know if and how individual households improve their situation when they buy a house. Second, I move beyond city/suburb distinctions and try to correlate more closely the neighborhoods in which low-income homebuyers live with indicators of neighborhood quality and opportunity, including access to jobs, education, and socioeconomic advantage. Third, rather than focusing on specific metropolitan areas, my quantitative analysis assesses the experiences of a nationally representative sample of low-income homeowners. Finally, the qualitative interviews allow me to examine the non-quantifiable aspects of neighborhood choice and to explore how the question of *where* to buy a house is embedded in a complex framework of household trade-offs and decision making.

Data, Methodology, and the Qualitative and Quantitative Sample Means

I analyze the experiences of low-income homeowners both qualitatively and quantitatively. For the qualitative analysis, I interviewed fifty-five low-income

Table 11.1. Key Characteristics of Interview Respondents

Selected Characteristics	N = 55	Respondents (%)
Racial or ethnic background		
White	15	27
Black	15	27
African American	9	16
East African	6	11
Asian	19	35
Chinese	9	16
Vietnamese	7	13
Other Asian	3	5
Hispanic	6	11
Economic situation		
Households paying 30% or less of their monthly income for housing	12	22
Households paying more than 50% of their monthly income for housing	30	55
Households that have had a loss of earner since buying a house	14	25
Number of households without health insurance	6	11
Household characteristics		
Number of non–English speaking households	24	44
Number of households with children	43	78
Number of single mothers	7	13
Average age	43	
Average house price (at purchase)	$191,345	
Average household income (2000)	$37,286	

Source: Compiled by the author.

homeowners in Seattle. Between 1990 and 2000 the median house value in King County increased by 70 percent, from $140,100 to $236,900 (Puget Sound Regional Council 2002), making it a relatively expensive real estate market for low-income households. Households qualified for the study if they had bought their home between 1997 and 2002 *and* if their current household income was less than 80 percent of Seattle's area median ($52,500 for a family of four). Table 11.1 summarizes key characteristics of the families I interviewed. Particularly noteworthy is the large number of first-generation immigrants in

my sample,[2] as well as the number of families who had previously been living in one of Seattle's public housing developments (20 percent). I used maps, a life history calendar (Axinn, Pearce, and Ghimire 1999), and an open-ended discussion to collect detailed data on the respondents' housing, employment, and neighborhood trajectories. Questions that guided the research included "What neighborhoods did you look in?" "Why did you exclude other neighborhoods from your search?" "What factors were most important to you in deciding where to live?" "How would you describe your neighborhood?" and "How does this neighborhood differ from where you were renting?"

For the quantitative analysis I use data from the Panel Study of Income Dynamics (PSID) to analyze the homeownership experiences of a nationally representative sample of low-income households between 1976 and 1993.[3] Originally designed to study the dynamics of poverty, the PSID primarily contains economic and demographic data, with detailed information on income, employment, welfare use, and family composition changes (Brown, Duncan, and Stafford 1996). Although the PSID does not focus on housing per se, it does contain data on rent, house value, mortgage payments, and dwelling type, making it possible to analyze the homeownership experiences of the families in the panel. One of the main advantages of using the PSID is that it contains supplemental geo-code files, which allow the researcher to link household data with geographic contextual variables. The geo-code files match the residential addresses of the PSID respondents at each annual interview to the corresponding 1970, 1980, and 1990 census codes, allowing for a detailed analysis of the neighborhoods in which PSID respondents live. Like other researchers, I use census tracts to approximate the idea of a local "neighborhood" and census variables as indicators of neighborhood quality.[4] The PSID respondents' residential addresses for the period 1976 to 1985 are linked to 1980 census data, and addresses for the 1986 to 1993 period are linked to 1990

2. The majority of immigrants in my sample did not speak English and were interviewed with the assistance of interpreters.

3. Since I initially proposed this research, the PSID has made early release data available for the 1994–2000 survey years. Due to the lack of comparability between these survey years and the public release files for 1968–1993, however, I chose not to extend my research to 2000. This is an important avenue for future research, especially now that Census 2000 data are also available.

4. For those PSID households that are missing tract identifiers or that live in untracted areas, primarily rural residents, I use census data at the Minor Civil Division level. Almost half of the non-metropolitan addresses in the PSID are identified as postal addresses instead of street addresses. While street addresses were matched to tracts, postal addresses were matched only to Minor Civil Divisions (Kim and Padot 1999). U.S. Census variables I use as indicators of neighborhood quality are (1) Neighborhood Demographics (percentage of persons who are white, and not of Hispanic origin, percentage of persons who are black [includes both Hispanic and non-Hispanic]; percentage of family households that have children [under age nineteen] and are headed by a

census data.[5] As a result, the values of the neighborhood characteristics change if the respondent moves to a new neighborhood from one year to the next, or if the neighborhood characteristics themselves change between the 1980 and 1990 censuses.

The sample was constructed as follows. First, I delimited the population of PSID renters in four ways. The sample consists of all PSID renters between 1976[6] and 1989 who met the following criteria: (1) who were between the ages of eighteen and forty-five when they entered the survey or began their own household;[7] (2) who were part of an original PSID family;[8] and (3) who were the head of a household or the spouse of a household head. In addition, renters who had

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woman, no husband present; percentage of persons who live in a rural area [both farm and nonfarm]); (2) Neighborhood Wealth (percentage of persons below the poverty level, percentage of households that have public assistance income, tract median household income [in 2000 U.S. dollars], county median household income [in 2000 U.S. dollars]); (3) Neighborhood Stability (percentage of dwellings specified as renter occupied, vacancy rate for year-round housing units, percentage of persons five years and older who had lived in the same house for the past five years); (4) Neighborhood Services (percentage of persons sixteen to nineteen who were not enrolled in high school and had not graduated, percentage of employed persons who commute to work by public transit, percentage of occupied housing units without a vehicle); (5) Neighborhood Employment (percentage of workers employed in professional or managerial jobs [includes persons who are unemployed, referring to their most recent employment], percentage of persons sixteen or older and not employed, percentage of employed persons who work in their county of residence); (6) Neighborhood Housing Costs (median monthly owner costs of owner-occupied housing units with a mortgage [in 2000 U.S. dollars], median monthly gross rent of renter-occupied housing units paying cash rent [in 2000 U.S. dollars], median house value of owner-occupied housing units [in 2000 U.S. dollars]). It is worth noting that including both tract median income and the county median income allows comparison of the local neighborhood to the county as a whole. A tract with a median income significantly lower than the county's suggests a disadvantaged neighborhood at the local level, while a tract with a higher median income would indicate a more economically advantaged neighborhood within the same geographic area.

5. See South and Crowder (1997, 1998a and b) for a similar approach.

6. Although the PSID began in 1968, I begin my analysis with the 1976 wave of the survey. I made this decision for two key reasons. At the start of the study, the PSID experienced significant attrition. In addition, given the lack of consistent census variables and changing census boundaries between 1970 and 1990, the neighborhood analysis proved to be less problematic when I started the sample in 1976. Second, by starting in 1976, I was able to avoid problems of left censoring (where it is not known whether or not the event has occurred previous to the period of observation), as I was able to control for the tenure history of households in the years prior to 1976.

7. Although many low-income homeowners are elderly, I chose to focus my research on the working-age population.

8. The PSID includes new panel members if individuals join an original panel family, for example, through marriage. These individuals, however, are not included in the analysis because their probability of selection differs from the original sample selection probabilities (Withers 1998).

owned in any of the five years prior to entering the sample were deleted.[9] My assumption is that entering the homeownership market for the first time is qualitatively different from purchasing a second (or third) home after a period of renting (Dieleman, Clark, and Deurloo 1995; Clark and Withers 1999). I stop adding new members to the sample in 1989 so that I have at least five years of data after a household enters the period of observation.

Second, I constructed income thresholds to distinguish between low-income, middle-income, and high-income renters. Renters are considered low income if their household had an income under 80 percent of the county median, adjusted for family size, for every year they rented *as well as* the year in which they bought their house. Middle-income renters are those whose income fluctuates above and below the 80 percent threshold during the time they were renting, as well as the year in which they bought their house. High-income renters are those who earned above the county median income for each and every year between the time they entered the sample and the year in which they bought their house. This longitudinal approach to measuring household income allows me to account for the substantive differences among families who experience prolonged or persistent poverty spells, those who are temporarily low income, and those who are consistently "well-off" and should not face constraints in entering the homeownership market.

I disaggregate the analyses by race, distinguishing between the experiences of white and minority households. Studies have consistently shown that race influences the ability of households to enter into homeownership and the neighborhoods in which they are able to buy a house, as well as the benefits that homeownership confers. Blacks are less likely to own a home, more likely to own homes of less value, and more likely to buy homes in primarily black tracts and in central cities than are whites, even after we take into consideration group differences in income, wealth, household composition, and location (see, e.g., Alba and Logan 1992, 1993; Flippen 2001; Gyourko, Linneman, and Wachter 1997; Horton 1992; Jackman and Jackman 1980; Long and Caudill 1992; Massey and Denton 1993; Myers and Chung 1996; Oliver and Shapiro 1997; Rosenbaum 1996). While the qualitative data do consider the unique experiences of immigrant groups, unfortunately the quantitative data from the PSID cannot be used to assess the different homeownership experiences of immigrants.[10] For this reason, the quantitative research relies on a white/minority

9. For example, for renters who entered the survey in 1976, I went back to previous PSID survey years and checked to make sure that none of them had owned as adults for the period 1970–1975. Initially, I did not think to delete renters who had owned previously, which significantly changed the results of the analysis. Renters who had previously been owners were older, wealthier, more likely to be families rather than single persons, more likely to buy a home within one to two years of being a renter, and more likely to buy in rural areas.

10. During the 1990s the PSID added a new sample of Hispanic households to achieve a better racial representation of the current population of the United States. But because PSID

Table 11.2. Summary Statistics for Panel Study of Income Dynamics (PSID) Sample of Renters

	Low-Income Renters	Middle-Income Renters	High-Income Renters
N	1,508	3,052	719
Percent of sample	28.6	57.8	13.6
Number making transition to home ownership	363	1,620	579
Percent making transition to home ownership	24.1	53.1	80.5
Household characteristics (%)			
Race (minority)	41.5	16.8	12.5
Age 18–29	82.0	89.0	72.9
Age 30–39	11.5	7.5	20.8
Age over 40	6.5	3.6	6.2
Single parents with children	29.6	7.9	1.9
Couple	18.9	28.2	57.0
Household socioeconomic status (%)			
No high school degree	40.9	16.3	6.9
Two earners	8.7	18.9	45.4
Occupation, professional or managerial	4.4	23.6	39.7
Median household income (2000)	$6,820	$19,034	$45,450

Source: Author's calculations of data from the PSID, Institute for Social Research, University of Michigan.

distinction, although the large majority of minorities in the PSID are African Americans.

Table 11.2 presents the summary statistics for the PSID renters in my sample.[11] The sample consists of 5,279 renters, of whom 28.6 percent (1,508) are classified as "low income," 57.8 percent (3,052) are classified as "middle income," and 13.6 percent (719) are classified as "high income." In total, about half of all the respondents in the sample moved into homeownership (48.5 percent). Not surprisingly, low-income renters were the least likely to buy a home, with only 24.1

respondents could "enter" my sample only up until 1989, my study does not include the experiences of this Hispanic sample.

11. The descriptive statistics were calculated using PSID weights and were measured for the year in which the renters entered the sample. Each year the PSID calculates both individual and

percent moving into homeownership, compared with 53.1 percent of middle-income renters and 80.5 percent of high-income renters.

The differences between the low-income, middle-income, and high-income renters are consistent with theoretical expectations. Approximately 40 percent of low-income renters are African American, compared with 17 percent of middle-income renters and 13 percent of high-income renters. All three categories are skewed toward the younger age groups, largely by virtue of the selection of renters, a group that is on average younger than the overall population. Low-income renters are more likely to be single parents with children than are both middle- and high-income renters. In contrast, high-income renters are more likely to be married (both with and without children), have two earners, and work in a professional or managerial position. Around 40 percent of low-income renters did not have a high school diploma, compared with only 7 percent of high-income renters. Finally, low-income renters have a median annual household income of $6,820,[12] compared with $19,034 for middle-income renters and $45,450 for high-income renters.

Movin' On Up? Do Low-income Households Move to Better Neighborhoods When They Buy a Home?

One of the major arguments for moving low-income households into homeownership is that homeowners live in better neighborhoods than renters, and that buying a home can therefore provide a low-income household with greater access to the metropolitan opportunity structure. But does the transition to homeownership actually result in a measurable improvement of neighborhood quality for low-income households? In this section I compare the neighborhood characteristics of low-income respondents in the PSID *before* and *after* they buy a house in order to assess quantitatively how the neighborhoods in which they own differ from the neighborhoods in which they were renting. Tables 11.3 and 11.4 present the results of this analysis, stratified by race. The statistics were calculated using the PSID weights, and all monetary values were adjusted to 2000 dollars using the Consumer Price Index. Neighborhood characteristics that are significantly different before and after the homeownership transition at alpha = .01 are indicated by one asterisk.[13]

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family weights to enable analysts to derive national estimates from the PSID sample (Hill 1992). According to Hill (1992, 61), the PSID weights should be used for descriptive statistics such as means, variances, or simple correlations between variables: "If such estimates are not based on the weights, then they describe only what is true for the PSID sample and not what is true for either the population as a whole or for any subgroup within the population."

12. It is important to note that this median figure includes a large number of households with no income. The median income of low-income households that bought homes is significantly higher.

13. I chose a significance level of .01 over .05 to ensure that even with a large *N*, the measured changes in neighborhood characteristics were meaningful. In practice, the results of the analyses are similar if we use a .05 significance threshold.

Let us turn first to the results for white households (table 11.3). The data presented here suggest that buying a house brings more neighborhood improvements to middle- and high-income households than to low-income households. Indeed, for low-income white households, there are no statistical differences in their neighborhood characteristics before and after buying a house. Low-income white households continue to own in neighborhoods that are on average poorer than the surrounding county (a median tract income of $41,486 compared with $42,155 for the county as a whole). Indicators of neighborhood poverty, services, and unemployment also remain at levels comparable to those in their rental neighborhoods. This suggests that low-income white households buy houses in neighborhoods very similar to those in which they were renting, and that homeownership in and of itself does not confer any new neighborhood benefits.

For middle- and high-income white households, however, we do see some changes in neighborhood characteristics after the transition to homeownership. Among white households, those who are middle income see the greatest improvement in neighborhood quality. Middle-income whites move to neighborhoods that are more rural and have a smaller proportion of rental units than their previous neighborhoods. In addition, the proportion of families in the neighborhood with welfare income decreases. Of note is that middle-income whites buy homes in tracts with significantly higher median incomes than where they were renting. In buying a house, they move from areas that are less privileged in relation to the county to ones that are more privileged, suggesting a shift to an overall better neighborhood within the local context. High-income whites also appear to move to wealthier neighborhoods when they buy a house, and the data point to their preference for more rural or suburban neighborhoods with a greater proportion of homeowners.

The story for minority households is quite different, however (see table 11.4). Perhaps the most striking finding is that in contrast to low-income whites, low-income minority households experience significant improvements in neighborhood quality when they become homeowners. Low-income minorities who buy a home benefit from moving to neighborhoods with lower poverty rates, lower rates of welfare use, lower unemployment rates, and a lower proportion of single-parent households than where they were renting. All of these changes are of substantive importance, although it is also important to note that actual levels of poverty, welfare use, and percentage of single mothers remain high in comparison to the neighborhoods in which white homeowners live. For middle- and high-income minorities, however, the neighborhood changes that accompany buying a home are small. Especially for high-income minorities, buying a home does not confer the same improvements in neighborhood quality that it does for low-income minorities, although they do move to neighborhoods that are slightly more stable than where they were renting. In contrast to high-income whites, who live in neighborhoods that are richer than the county median, high-income

11.3. Neighborhood Characteristics before and after Buying a House, White Households

	Low-Income		Middle-Income		High-Inco
	Before	After	Before	After	Before
borhood demographics (%)					
n-Latino Whites	90.3	90.5	85.3	86.9*	88.1
ck	5.3	4.5	6.5	5.8*	6.1
nilies with children with emale head	16.0	15.6	19.9	19.6	15.6
al	26.5	29.1	20.2	23.6*	17.4
borhood wealth					
cent people in poverty	11.2	11.3	11.2	11.6	9.8
cent households with velfare income	6.3	6.5	6.4	5.9*	6.1
dian household income (2000) ($)	41,792	41,486	42,814	45,173*	43,623
unty median income (2000) ($)	41,927	42,155	43,057	43,294	41,686
borhood stability (%)					
tal units	31.5	29.4	35.5	29.5*	34.7
using units vacant	7.4	6.8	7.2	7.3	6.1
nd over in same house	54.6	54.8	50.9	52.2*	53.6
borhood services (%)					
ng adult dropouts	12.4	12.2	11.8	13.0	11.5
nmute public transit	4.4	4.1	5.0	5.6*	8.0
useholds without car	9.9	10.1	10.2	8.6	12.3
borhood employment (%)					
lt unemployment rate	6.3	6.4	6.0	7.3	5.8

ployed in professional or nanagerial jobs	25.1	24.5	29.0	31.8	29.6
ployed in county of residence	70.9	72.7	73.3	73.9	74.2
borhood housing costs					
dian monthly owner costs vith mortgage (2000) ($)	872	872	970	980	900
dian monthly rental costs (2000) ($)	559	560	609	626*	617
dian house value (2000) ($)	111,787	109,192	133,709	131,034	131,237

urce: Author's calculations of data from the PSID.

ndicates significant difference between the neighborhoods before and after buying a house, at alpha = .01.

.4. Neighborhood Characteristics before and after Buying a House, Minority Households

	Low-Income		Middle-Income		High-Incor
	Before	After	Before	After	Before
hood demographics (%)					
atino Whites	40.4	45.1*	47.0	45.5	47.1
	52.2	46.7*	43.1	43.6	45.9
es with children	33.2	31.1*	31.0	29.5*	31.0
female head					
	13.4	16.1*	18.4	20.5	12.6
hood wealth					
t people in poverty	23.6	21.9*	20.5	19.5*	17.2
t households with	15.8	14.1*	13.8	13.3	12.9
are income					
n household	32,607	33,351	35,093	36,030	36,619
me (2000) ($)					
y median income	40,939	40,466	39,125	39,005	40,146
00) ($)					
hood stability(%)					
units	37.7	34.5*	40.7	35.4*	45.5
ng units vacant	9.3	9.6	9.3	8.9*	8.7
over in same house	58.9	60.3	54.3	55.7	51.6

hood services (%)					
adult dropouts	16.2	17.9	15.4	14.8*	14.4
ute public transit	10.0	9.5*	9.0	8.6	14.5
holds without car	21.5	20.1*	19.7	17.9*	21.6
hood employment (%)					
unemployment rate	10.8	9.3*	10.0	9.9	9.8
yed in professional anagerial jobs	20.4	20.6	23.2	22.1	25.4
yed in county of residence	73.0	76.0*	72.5	72.8	66.9
hood housing costs					
n monthly owner costs mortgage (2000) ($)	770	779	837	834	915
n monthly rental (2000) ($)	537	526	521	561*	570
n house value (2000) ($)	81,896	80,543	99,928	95,708*	121,495

Author's calculations of data from the PSID.

ates significant difference between the neighborhoods before and after buying a house, at alpha = .01.

minorities continue to live in areas of lower median income than the county as a whole ($38,000 versus $41,000) even after buying a home. This provides evidence that even when they have adequate financial resources, high-income minorities do not have access to the best neighborhoods within the local housing market.

The tables show that there remain important differences in the racial composition of the neighborhoods in which white and minority homeowners live. Buying a home does not significantly change patterns of racial segregation: white households buy homes in predominantly white neighborhoods, while minority households tend to buy homes in tracts that are half black (figure 11.1). There is a slight tendency among whites (and low-income minorities) to move to neighborhoods with a lower percentage of African Americans, but overall the changes in neighborhood racial composition when households move from renting to owning are slight.

The role of race versus class—and residential choice versus residential discrimination—in determining patterns of residential segregation has been the subject of considerable debate (see, e.g., Wilson 1978, 1987; Massey and Denton 1993; Darden 1987, 2003; Pattillo-McCoy 1999). What is of concern here is that even if these segregated housing patterns reflect the residential preferences of African American households, they nevertheless have significant

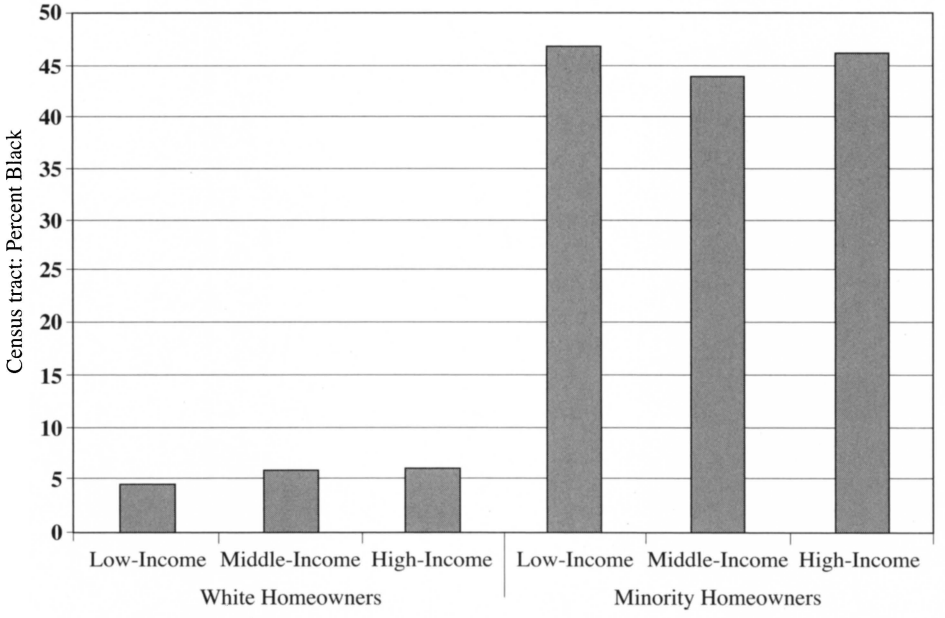

Figure 11.1. Racial composition of homeowner neighborhoods. Author's calculation of data from the Panel Study of Income Dynamics, Institute for Social Research, University of Michigan.

implications for whether or not minorities will benefit from homeownership in the same way as white households. Research suggests that the neighborhood's racial composition affects house value appreciation (Chambers 1992; Denton 2001; Harris 1999; Brooks-Gunn, Duncan, and Aber 1997), and that housing in black neighborhoods receives lower appraisals (Lacour-Little and Green 1998). The data presented here similarly suggest that at all class levels, minorities live in neighborhoods where property values are significantly lower than in their white counterparts' neighborhoods. Low-income minorities buy properties in neighborhoods where median house values are approximately $80,000, compared with $110,000 for low-income whites. The gap is wide for middle- and high-income minorities as well.

Patterns of residential segregation may also be limiting minorities' access to other elements of the metropolitan opportunity structure. At all class levels, minority homeowners live in more urban settings, in neighborhoods with higher unemployment, more single-parent families, and a greater high school dropout rate, and in neighborhoods where a larger share of families receive public assistance. More than half of all low-income minority homeowners live in neighborhoods with a poverty rate of over 20 percent (figure 11.2). Poverty

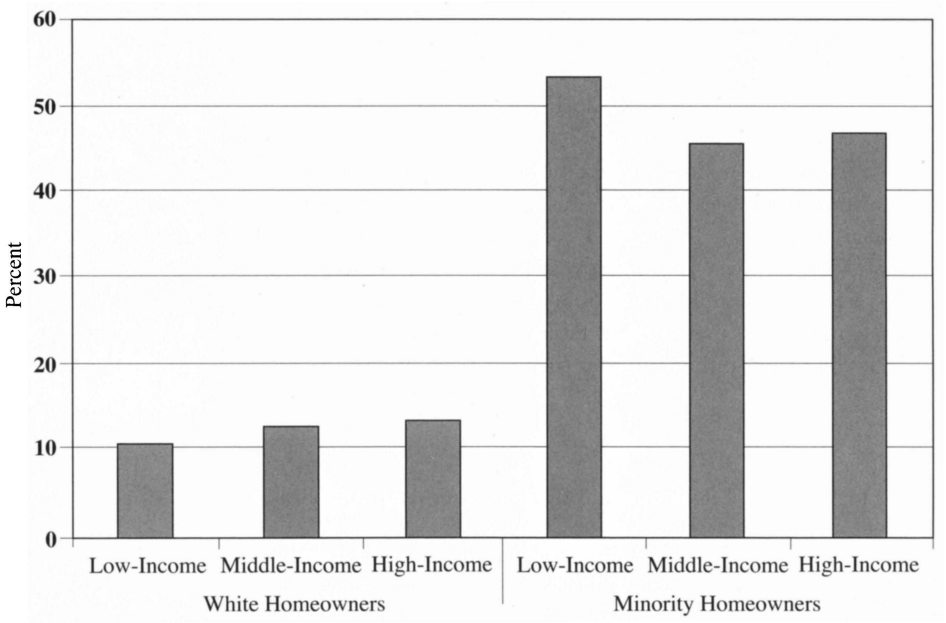

Figure 11.2. Percent of homeowners living in high-poverty neighborhoods (tracts with a poverty rate greater than 20 percent). Author's calculation of data from the Panel Study of Income Dynamics, Institute for Social Research, University of Michigan.

levels over 20 percent within a neighborhood are associated with high rates of crime, depressed local employment opportunities, and social disenfranchisement (Massey, Gross, and Eggers 1991; South and Crowder 1998a and b; Wilson 1987).[14] Even among middle- and high-income minorities, approximately 45 percent of homeowners live in these high-poverty neighborhoods, compared with only about 10 percent of white homeowners. Living in these more disadvantaged neighborhoods is likely to have a negative impact on the benefits of homeownership for minority homeowners and may impede efforts to use homeownership as a way to mediate the wealth gap between white and minority households (Oliver and Shapiro 1997).

Assessing Neighborhood Change after Home Purchase

According to Rohe and Stewart, homeownership is thought to confer benefits "to the neighborhood by stabilizing property values, encouraging maintenance and upkeep of properties, and improving social conditions like high school dropout rates or crime rates" (Rohe, McCarthy, and Van Zandt 2000, 20). Homeowners, in turn, benefit from these improvements through better schools for their children and stable or increasing property values. Increased homeownership rates and neighborhood conditions are thus thought to be mutually reinforcing, leading to ever greater property values and improved social conditions (Rohe and Stewart 1996). But given that low-income and minority homeowners live in different neighborhoods than do higher-income and white homeowners, do they experience these same benefits?

In this section I analyze whether or not homeownership can be linked to neighborhood improvements over time such as increased property values and improved social conditions. To do so, I compared the characteristics of neighborhoods of PSID homeowners in the first year they bought a home (year of purchase) with the last year they were in the sample (several years after purchase).[15] The results from this analysis are presented in tables 11.5 and 11.6. Neighborhood characteristics that changed significantly over time are marked with one asterisk.

14. The U.S. Census Bureau designates census tracts with poverty rates of 20 percent or more "Poverty Areas" (Bureau of the Census 1995b).

15. The sample of PSID homeowners is the same as presented in the previous analysis, although this sample is slightly smaller. In the previous section I included the experiences of those who bought homes between 1990 and 1993, while in this analysis I consider only those who became homeowners by 1989. This time cutoff allows me to follow their experiences for at least four years after buying a home. As a result, the averages of the "before" column here do not match the "after" column in the previous section.

.5. Changes in Homeowner Neighborhood Characteristics, White Households

d Neighborhood racteristics	Low-Income		Middle-Income		High-Income	
	Year of Purchase	Several Years after Purchase	Year of Purchase	Several Years after Purchase	Year of Purchase	Seve after
eople in poverty	11.3	12.3	11.7	9.8	9.8	8
ousehold income ($)	40,583	41,713	42,844	48,758*	43,529	53
nedian income ($)	41,146	43,122	42,016	43,811*	41,898	44
oung adult dropouts	12.8	12.0	13.6	10.2	12.8	8
employment rate	6.8	7.2	7.3	5.3	6.0	1
mployed in professional nagerial jobs	23.1	24.0	29.4	30.7	27.1	3
ouse value (2000) ($)	106,867	114,513	121,548	134,867*	124,570	157

: Author's calculations of data from the PSID.

ates significant difference between the neighborhoods before and after buying a house, at alpha = .01.

6. Changes in Homeowner Neighborhood Characteristics, Minority Households

	Low-Income		Middle-Income		High-Incom	
Neighborhood Characteristics	Year of Purchase	Several Years after Purchase	Year of Purchase	Several Years after Purchase	Year of Purchase	Seve after
ople in poverty	23.0	22.9	19.6	19.0	16.9	
usehold income (2000) ($)	32,857	33,264	35,172	37,880	38,812	4
edian income (2000) ($)	39,694	40,206	38,563	39,057*	39,719	42
ung adult dropouts	17.0	15.0	15.7	14.0*	14.2	1
mployment rate	9.8	10.0	9.3	8.8	8.1	
nployed in professional or managerial jobs	20.1	21.8	21.8	24.2	23.5	2
use value (2000) ($)	84,204	86,105	89,039	95,206	108,834	11

Author's calculations of data from the PSID.

tes significant difference between the neighborhoods before and after buying a house, at alpha = .01.

The data contained in these tables show that the neighborhood context is very important in determining whether or not homeowners will experience neighborhood improvements over time. On average, many of the neighborhood benefits ascribed to homeownership are experienced largely by white, middle- or high-income households. The neighborhoods in which low-income minority homeowners live do not improve significantly over time. In fact, there is no significant change in any of the variables describing neighborhood quality over time, and poverty rates, unemployment, and high school dropout rates all remained at high levels. Even for middle- and high-income minorities, neighborhood improvements are slight. Both middle- and high-income minorities experienced an improvement in high school dropout rates, and high-income minority homeowners also benefited from an increase in the percentage of residents holding professional or managerial jobs. Yet for minorities of all income groups, neighborhood house prices did not appreciate significantly after they became homeowners, although there is an indication of an upward trend.

Among white households, the neighborhood changes over the period of homeownership varied by income group. Like low-income minorities, low-income white households did not experience any significant positive changes in their neighborhoods, nor did property values increase markedly over time. In contrast, higher-income white households experienced the greatest improvement in neighborhood quality. Indeed, the neighborhoods in which middle- and high-income households lived experienced, on average, a 30 percent increase in house values. High-income white households saw significant improvements for a number of other indicators as well, including a reduction in the poverty rate, an increase in tract median household income, improvements in the high school dropout rate, lower unemployment rates, and an increasing proportion of residents working in professional or managerial jobs.

Although this analysis is far from conclusive, it does suggest caution in assuming that low-income households will experience improvements in neighborhood quality if they become homeowners. In particular, low-income and minority homeowners may not see the same improvements in indicators of neighborhood quality that we would expect for homeowners in general. For minorities buying in high-poverty tracts, homeownership may in fact impair their ability to move out of these neighborhoods, perpetuating rather than ameliorating unequal access to the metropolitan opportunity structure (Rohe, McCarthy, and Van Zandt 2000).

Neighborhood Choice: The Constraints Facing Low-Income Households in Choosing Where to Live

The quantitative results presented thus far show that low-income and minority households do not have access to the best neighborhoods, and that they do not

necessarily improve their living environs when they buy a house. In this section I explore the factors that influenced where low-income households in Seattle bought homes in order to explore the underlying relationship between neighborhood choice and outcomes. The decision where to live is complex, involving numerous trade-offs, personal preferences, emotions, and negotiations within the household, all of which are conducted within a framework of cost and opportunity (Rossi 1955; Clark and Dieleman 1996; Pickles and Davies 1991; Varady 1983). Yet to what extent are low-income households buying homes where they want to live as opposed to where they can afford?

What emerged very strongly in the interviews is that low-income households are severely constrained as to where they can buy a house, especially in an expensive real estate market such as in Seattle. By far the most important variable that drove the location choice of my respondents was house values, and there was a distinct lack of adequate and affordable homes in Seattle's more desirable neighborhoods (Collins, Crowe, and Carliner 2002), where a two-bedroom fixer on a busy street could easily cost $200,000. In poorer neighborhoods or distant suburbs, however, the families I interviewed were still able to find three- to four-bedroom houses, often new construction, and with large surrounding lots.

Figure 11.3 shows the distribution of house values across the Seattle region, with the squares indicating the neighborhoods in which the families I interviewed bought their homes. When I asked the question "Why did you pick this neighborhood?" the most common answer was that it was a neighborhood in which they could afford to buy. West Seattle, Burien, Kent, and Des Moines defined the perimeters of affordable neighborhoods, with none of the families even looking at houses in the wealthier neighborhoods of Queen Anne or Capitol Hill or across the ship canal north of the University District.

For most families, the clear trade-off between neighborhoods with lower house values and those with better locations was the size of the house they could get for their money, which suggests that although there may be cultural differences in the demand for space and privacy, the link between household size and the demand for housing remains (Clark and Dieleman 1996; Davies and Pickles 1985; Newman and Duncan 1979; Withers 1998). Parents told me that they wanted to buy a place where their kids could have their own rooms and a yard to play in ("We needed space to breathe"). Vanessa, who bought her manufactured home for $140,000, said that South Rainier wasn't her first choice of where she wanted to live: "I can't say I love my street; it's pretty ugly. We're pretty far out, and some of the neighbors are renters; they don't keep up their houses the same. . . . I would have liked a garage and a backyard, and I didn't really like the layout of the house or the metal fencing, but I really wanted three bedrooms so my kids wouldn't have to share, and I couldn't afford anything bigger . . . and I certainly couldn't afford to live up north."

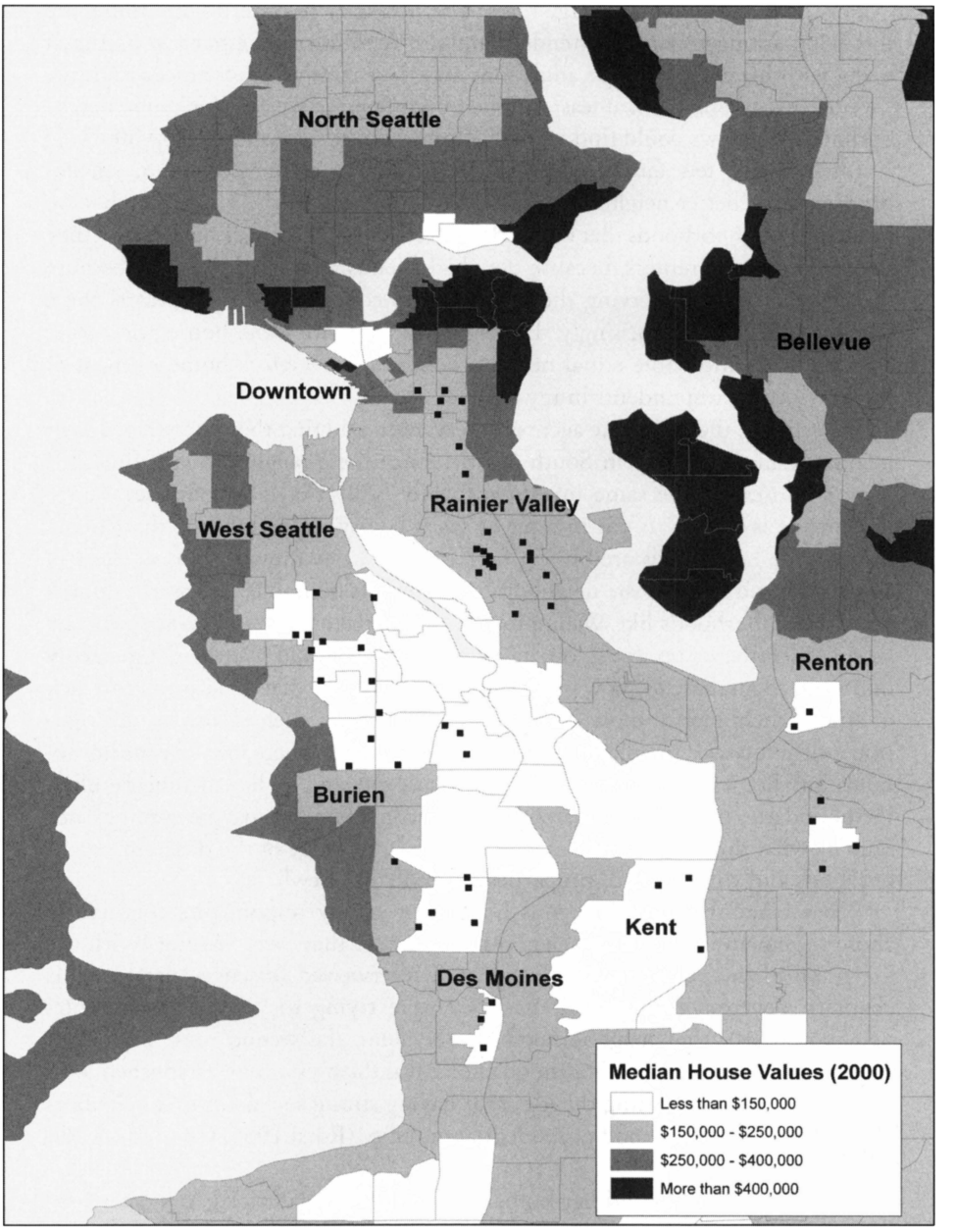

Figure 11.3. Neighborhood house values and areas where low-income families bought homes, Seattle. U.S. Census 2000. Location of low-income homeowners (represented by black squares) added by the author.

For many immigrants, a large house was necessary in order to accommodate the living arrangements of extended families. As Dinh, a Vietnamese patriarch living with his wife, his three adult sons and their families, and a niece told me, "We needed a house with at least four bedrooms, and so we only looked in neighborhoods where we could find a four-bedroom house for around $200,000."

Interestingly, few families even reported looking at inexpensive or smaller properties in "better neighborhoods." The boundaries of the house search were limited to neighborhoods that respondents were familiar with, either because they had lived there as renters, because they had friends who lived there, or because the real estate agents serving the communities concentrated their efforts there (Ratner 1996). Not surprisingly, the neighborhoods with lower house prices were also the more affordable rental neighborhoods, and therefore home to most of the low-income respondents in my sample.

In addition, the real estate agents I interviewed said that they encouraged low-income residents to buy in South Seattle, since these neighborhoods provided "larger houses for the same investment" and "still offered bargains, especially if someone is willing to put in a bit of sweat equity." One told me that "many low-income households are buying here [south of downtown]. Houses are still affordable, and because the neighborhoods aren't as desirable, it's easier to find a place. Neighborhoods like Wallingford and Montlake [north of downtown] are so yuppified there's no way a low-income household could live there. I generally don't take them there to show properties." This suggests that in addition to a lack of affordable homes in more desirable neighborhoods, there is also an information availability and familiarity component that shapes where low-income households buy homes. In contrast with the situation facing higher-income families, the boundaries of the house search for low-income families may be confined not only by what they can afford but also by their knowledge of the different neighborhoods and what types of properties are available elsewhere.

What I hadn't counted on was how many of my respondents consciously chose to remain in the same neighborhoods where they were renting. With the exception of the public housing residents I interviewed (discussed later in this chapter), few respondents said that they were trying to "escape" their rental neighborhoods. After neighborhood house values, the second most important factor that determined neighborhood choice was the presence of established local social networks, supporting the idea that having strong social ties to a neighborhood reduces the likelihood of residential mobility (Rossi 1955; Connerly 1986; Varady 1986).

For example, Trisha and her husband, a middle-aged African American couple, are very active in their church community, and they wanted to continue to live near their church and their family, including two sisters who "come and go as they please." Trisha also said that she felt it was important for her to live in an area that has traditionally been home to Seattle's African American community

(Taylor 1994). "This here is my community," she told me. "I feel at home here." Salma, who inherited her childhood home, similarly said that she wouldn't leave the neighborhood, one of Seattle's poorest: "I know this neighborhood, and the neighbors know me and my kid. It's home." Margaret and Jim, a young white couple, bought a house in West Seattle, close to their old apartment. "We liked the neighborhood," they explained. "We know the bus routes, we've got our group of friends. . . . It would be harder to keep our routines if we lived in Wallingford or Ballard. And West Seattle is still a deal."

Immigrants with strong community ties also tended to live near others from the same ethnic background (Borjas 2002; Logan, Alba, and Zhang 2002). Five of the Chinese families I interviewed had chosen to buy houses at Holly Park,[16] all within six blocks of one another. As Mei Ling told me: "Shen Bing recommended that we buy a house here at Holly Park, and after we moved in, we recommended it to others. It is good for us to have so many friends nearby." When I interviewed Shen Bing, she told me that Ms. Huang in the Holly Park Windermere office, who speaks both Mandarin and Cantonese, has helped to make Holly Park a Chinese community: "We like it here. People from our hometowns in China live here too, which is nice. I'm not living isolated in a sea of houses and apartments with people I don't know." Isabel and Marcos, both from Central America, told me that they liked the fact that many of their neighbors came from Central and South America. Isabel said: "We rented near here and we liked the neighborhood; it seems friendly, and it has good Mexican restaurants and stores. We don't know all of the neighbors, but it helps that many of us speak Spanish, to let someone know that the postman dropped off a package or that we saw their kids getting in trouble at the cinema."

Overwhelmingly, interview respondents said that they wanted to remain in the neighborhoods where they had been renting. The one exception to this was respondents who had been living in public housing. In these interviews, many respondents expressed a desire to leave neighborhoods they perceived to be plagued with problems of crime and racial tension (Speare 1974; Speare, Goldstein, and Frey 1975; Frey 1979).[17] One Vietnamese respondent commented, "It was bad there. The black teenagers vandalized cars, drank, and smoked drugs." Abdi, one of the East African immigrants, was very explicit about wanting to get his kids "out of that kind of neighborhood." He told me, "My kids are good kids; I want

16. As a HOPE VI development, Holly Park contains a mixture of public housing units and affordable homeownership units, as well as homeownership units for sale at market rates.

17. From my perspective, the public housing developments in Seattle are located in very safe neighborhoods, with very little crime or illegal activity. While I was working there, I would often hear of small thefts (e.g., a radio stolen from a car), but reports of violent crime were extremely rare. Yet residents clearly perceived their situation differently, and getting away from crime was a key reason for buying a house and leaving public housing.

them to stay that way." As a result, public housing residents tended to choose distant, whiter suburbs over the closer and more racially mixed Rainier Valley and Central districts where they had been living as renters.

Still, even for respondents who expressed a desire to move to a better neighborhood, constraints on where they could afford to buy a house excluded almost all of them from the best neighborhoods in Seattle. With the exception of a few families who moved to significantly distant suburbs, low-income respondents remained confined to areas of Seattle with comparatively high rates of poverty, a finding that supports the results of the quantitative analysis.

Figure 11.4 shows the neighborhoods in which low-income families bought homes, along with tract poverty rates. Ten out of the fifty-five families—all of them either Hispanic or African American—live in or directly adjacent to neighborhoods with some of the highest poverty rates in Seattle. In the most extreme case, one respondent ended up in a very bad neighborhood. José bought a $139,000 house in Georgetown, a predominately Hispanic neighborhood poised for gentrification. Unfortunately, shortly after moving in, José and his family realized that they were located in what is known as "The Triangle," a particularly derelict neighborhood in Georgetown spanning about three blocks. Despite efforts by the neighborhood group to clean up the area, the problems have proven to be intractable. Rival gangs use José's street as a battlefield, and police have unsuccessfully tried to close down a crack house at the end of the block three or four times. "I feel very unhappy here, but we can't afford to leave," José told me. "My wife, she is scared to let the children play outside. [The neighborhood residents' association] is trying to make things better, but I think the problems are too big. . . . [W]hen I leave for work in the morning I check the grass for needles." Efforts to sell the house and leave the block have been difficult, and José has had no offers on his house even though he put it on the market at $20,000 below the price at which he purchased it five years earlier.

Jose's story was the exception. Most families told me that they liked their neighborhoods. Yet the fact that the majority of families bought homes in the poorer neighborhoods of Seattle raises the question whether or not these neighborhoods will improve or experience house price appreciation over time. Parallel to the quantitative analysis, I asked the other respondents if they felt that their neighborhoods had changed since they bought their homes. Many noted changes related to the slump in Seattle's economy, saying that houses in their neighborhood were staying on the market longer than they had a few years before, or that they had noticed fewer construction and renovation projects on their block. But in general, discussions of neighborhood change were directed more to the arrival or departure of immediate neighbors and did not illuminate whether there had been more lasting changes to the opportunity structure of the neighborhood. Since most of my respondents had lived in their homes only a short time (five years or less), however, it is likely that there had not been enough time to see real evidence of

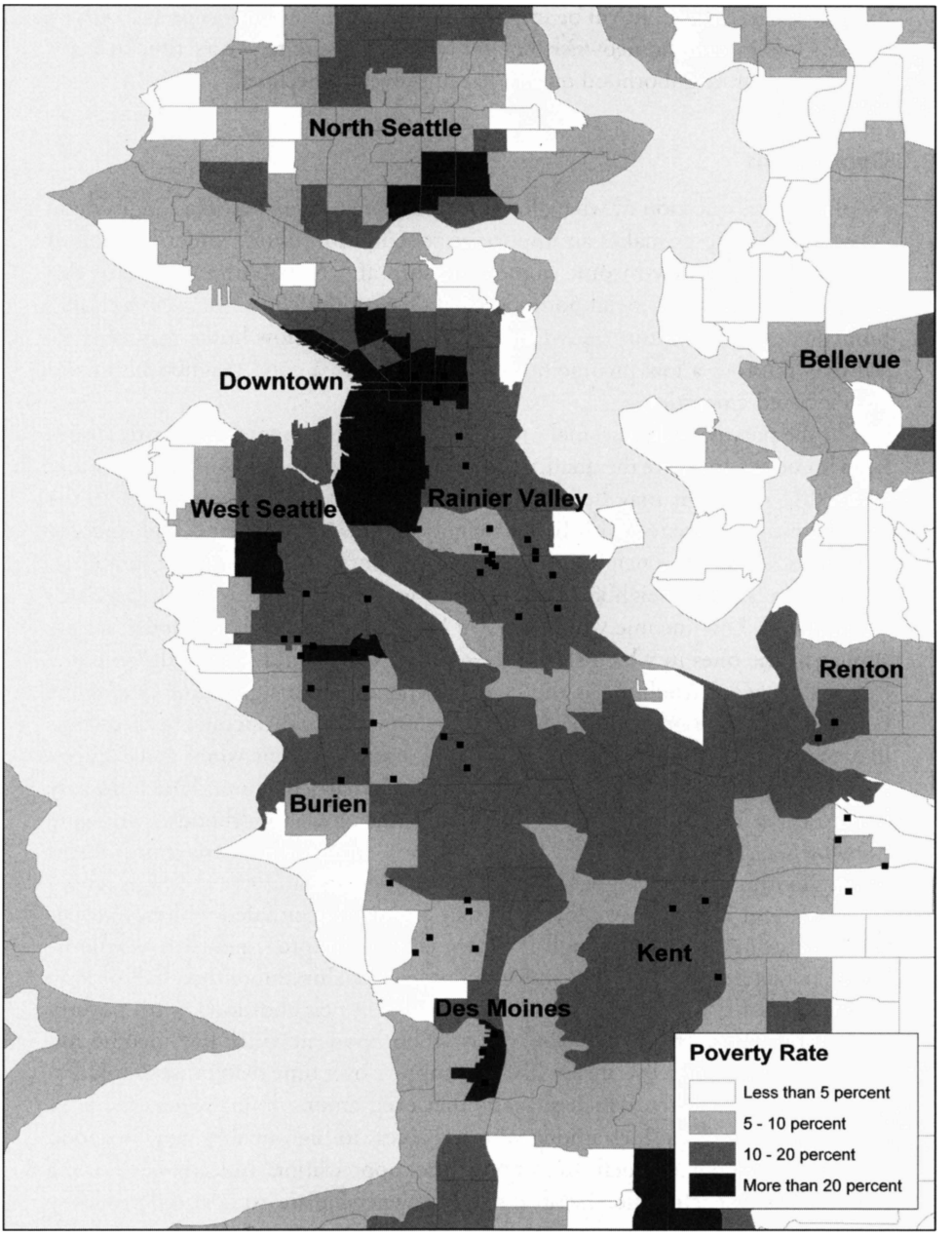

Figure 11.4. Neighborhood poverty, Seattle. U.S. Census 2000. Location of low-income homeowners (represented by black squares) added by the author.

neighborhood change. It will be important to revisit the neighborhoods in which Seattle's low-income homeowners bought homes in five to ten years' time to assess whether or not neighborhood quality has improved or declined.

Conclusions

By placing the question of where low-income homeowners live in a longitudinal context, this chapter makes an important contribution to our understanding of the links between low-income homeownership and neighborhood quality. Assessing the changes in neighborhood quality over the course of a household's homeownership trajectory allows an explicit analysis of how homeownership itself may improve a low-income household's access to a good neighborhood and its associated amenities.

On the positive side, the analysis shows that for low-income minorities, buying a home can improve the quality of their neighborhood, suggesting that homeownership programs may be an effective way of expanding their access to the opportunities associated with better neighborhoods. Middle- and high-income whites also experience neighborhood improvements when they buy a home.

In contrast, the neighborhood benefits for low-income white households are minimal. Low-income whites tend to buy homes in neighborhoods that are similar to the ones in which they were renting, as do middle- and high-income minorities. More troubling is the fact that there remain significant differences between the neighborhoods in which low-income and high-income homeowners live, and that these differences become even more apparent when racial differences among households are taken into account. In particular, I find that minority homeowners live in significantly more disadvantaged neighborhoods than white homeowners, regardless of class status. Minority homeowners are concentrated in neighborhoods with higher levels of poverty, greater numbers of high school dropouts, and higher unemployment than comparably situated whites. Particularly worrisome is that although they do see some improvements in neighborhood characteristics when they move to homeownership, more than half of low-income minority homeowners are buying homes in neighborhoods with poverty rates above 20 percent. In addition, the neighborhoods in which low-income and minority homeowners live are less likely to improve over time than those of middle- or high-income whites, which suggests that even among homeowners there remain significant disparities among who has access to high-quality neighborhood amenities or who will benefit from house price appreciation. Indeed, many of the neighborhood benefits often ascribed to homeownership are experienced primarily by white, middle- and high-income households.

The qualitative interviews illuminate the context in which low-income households buy homes and help us understand the quantitative data on the links between homeownership and neighborhood quality. Just as contemporary

inequalities in homeownership must be situated in the context of historical processes of uneven urban development, redlining, and segregation, the future benefits of homeownership for low-income households will be influenced by the context and processes that shape where they buy homes today. Although my research did not identify overt discrimination or racial steering in Seattle, low-income households are nevertheless excluded from many of the better neighborhoods due to the lack of an adequate supply of affordable housing. The interviews also found that many low-income households chose to buy homes in the same neighborhoods where they were renting, and that access to information and the presence of local social networks played an important role in neighborhood choice. As a result of a combination of these factors, low-income households were more likely to buy homes in high-poverty areas or in distant suburbs, a finding which suggests that homeownership in and of itself will not redress inequalities in access to the metropolitan opportunity structure.

The research presented here has significant implications for policies promoting homeownership among low-income and minority households. First, homeownership is unlikely to be an avenue for social mobility if it only serves to trap households in disadvantaged neighborhoods, or if the gains from homeownership are attained only by middle- or high-income households. To be successful, policies that help low-income and minority households to enter homeownership must be linked with community development strategies that stimulate neighborhood economic development, increase local employment opportunities and wages, and improve neighborhood-linked amenities such as schools and transportation options. Second, more emphasis needs to be placed on the supply side of providing homeownership opportunities in neighborhoods across metropolitan areas, not just those that are targeted for revitalization. For example, inclusionary zoning—which requires developers to build affordable properties alongside their market-rate homes—could expand the supply of affordable homes in good neighborhoods (Brown 2001). Third, expanded counseling programs should include information not only about the financial complexities of home purchase but also on the importance of neighborhood choice. Campaigns to educate low-income households about affordable homeownership opportunities that may be available in the better-quality neighborhoods could also help to redress the problems of a house search constrained to a small geographic area.

In posing these conclusions, I must stress that this analysis is only a preliminary step toward a better understanding of the links between homeownership, neighborhood quality, and opportunity. In particular, although this research spans a time period that witnessed both "boom" and "bust" cycles in the housing market (1976–1993), it does not evaluate how low-income households fared in the subsequent period of very low interest rates and regional pockets of skyrocketing house prices. The implication of this boom for low-income households is unclear. Research is needed that analyzes whether the growth in the number of

low-income homeowners since the early 1990s has affected the distribution of home equity and wealth. Also of critical concern is the impact on low-income homeowners of adjustable rate mortgages and interest-only loans. Are they successful products that can help low-income households become homeowners and take the first step up the housing ladder, or do they make low-income homeowners more vulnerable to losing their homes? The impact of foreclosures on both households and neighborhoods is another important area of study.

In addition, more research is needed on the geography of low-income homeownership and its implications for social mobility. For example, future research should attempt to develop better measures of neighborhood quality and access to opportunity. Estimating the "threshold" effects for neighborhood characteristics—for example, at what level of poverty or unemployment do we see neighborhood decline—may provide important insights into how neighborhood dynamics are associated with homeownership outcomes. (See Galster, Quercia, and Cortes 2000 for an initial attempt at identifying neighborhood thresholds.) In addition, many neighborhoods are now better characterized as "multiethnic," and it will be important to consider to what extent the changing demographics of the minority population will influence patterns of residential segregation, neighborhood conditions, and their effects on the benefits of homeownership.

We also need more research that assesses the intergenerational aspects of homeownership. In many of my interviews, respondents chose homeownership "for the children." The effects of neighborhood quality may be particularly important in shaping the decisions of youth (Galster and Killen 1995). Perhaps the neighborhood benefits of homeownership should not be measured on a five-to-ten-year time scale as in this study but rather according to one that spans forty to fifty years. This analysis could provide a very different set of answers to the questions of whether or not homeownership leads to improved neighborhood quality and what its impacts are on the well-being of low-income households.

Despite its preliminary nature, my research nevertheless shows that there are important differences between the experiences of low-, middle-, and high-income homeowners and attests to the importance of disaggregating the homeownership experience by both race and social class. Homeowners are not a homogeneous group; referring to the collective experiences of "homeowners" obscures important differences among those who own a home, as well as who stands to benefit from homeownership. By focusing specifically on the experiences of low-income homeowners, and by building our understanding of what factors influence a household's chances of failure or success, we can develop policy interventions that may help to mitigate the risks that low-income households face as they move from renting to owning and ensure that buying a home really does open the door to more equal opportunity.

12

Conclusion

Toward More Efficient and Equitable Homeownership Policies

WILLIAM M. ROHE

The authors of the eleven chapters in this book consider affordable homeownership from a variety of disciplinary perspectives and in doing so arrive at a variety of recommendations for improving homeownership policy. Those recommendations cover the full range of actors involved in expanding affordable homeownership opportunities, including the federal government, government-sponsored enterprises (GSEs), state and local governments, national and local nonprofit organizations, and private-sector lenders and developers. The purpose of this chapter is to summarize and comment on those recommendations. Taken together, they form the basis for a more efficient and equitable approach to expanding homeownership opportunities to lower- and moderate-income households.

Recommendation 1: Federal, state and local housing policy should provide balanced support for affordable owner-occupied and rental housing opportunities.

The authors of no fewer than five of the chapters (Vale, Bratt, Goetz, Rohe and colleagues, and Belsky and colleagues) recommend balanced national, state, and local housing policies that support the expansion of both affordable rental and owner-occupied housing opportunities. They express great concern that hyperbole about the benefits of homeownership has resulted in the denigration of affordable rental housing and its occupants. Vale makes this point most poignantly when he states that "as citizens and policymakers, we still suffer from a lingering fantasy: a belief that the only thing thwarting the United States from becoming a nation of 100 percent homeowners inheres in the 'character' flaws and the lack of 'responsibility' of our lowest-income households. We have lost little of the Hoover-era renter-bashing mentality, especially virulent with regard to tenants of public housing" (chapter 2). I daresay that none of the authors who

have contributed to this book would like to see their work used to undermine the development of affordable rental housing.

Although owner-occupied housing has its advantages from the point of view of both the individual and society, there will always be a need for affordable rental housing. First and foremost, many people simply do not have the income, savings, and credit rating needed to buy and maintain an owner-occupied home. Even if houses were given to households in the lower-income deciles, they could not afford the costs of taxes, insurance, utilities, maintenance, and repairs. As Apgar (2004, 7) suggests: "Lacking good quality and affordable rental housing options many households purchase a home of their own, even though homeownership may not represent a good choice." High-quality rental housing is needed to accommodate many lower-income households in American society. These are often the households that are filling the service jobs in our communities.

Moreover, data indicate that there is a continuing shortage of affordable rental housing. A total of 5.18 million very low income households had "worst case" needs in 2003 (HUD 2005). Worst case needs are defined as unassisted renters with incomes below 50 percent of the area median income who either pay more than 50 percent of their income for rent or live in severely substandard housing. It is safe to say that very few of those households will be able to afford the costs of homeownership.

Second, rental housing is often better suited to those who are highly mobile, a sizable proportion of American society. As Apgar (2004, 3) notes, "Virtually everyone—by some estimates as many as 95 percent of all individuals—lives in rental housing at some point over their life course." In many instances these spells of renting occur when households are uncertain how long they will be staying in a particular locality or are not planning to stay. The high transaction costs associated with buying and selling a home make homeownership a costly option for those households. Given the continuing restructuring of our economy, a mobile labor force is needed, and rental housing is best suited to supporting that mobility. As suggested by South and Crowder (1998a), homeownership can act to trap lower-income families in areas where job prospects are poor.

Third, a portion of the population is simply not capable of or interested in assuming the responsibilities associated with owning a home. The elderly, for example, are often not capable of maintaining a home. Moreover, in spite of the cultural bias toward homeownership, some households with the means to do so choose not to buy. They would rather not assume the direct responsibilities for maintenance, repairs, and the other obligations associated with owning a home.

Finally, shifting public support from rental housing to homeownership has the effect of favoring higher-income households over lower-income ones and may undermine the health and attractiveness of central-city neighborhoods. As Goetz points out in chapter 5: "Middle-income families with choice in the housing market are unlikely to choose neighborhoods in which the multifamily housing

stock has been ignored. Shifting public investments away from the rental housing stock is a form of self-imposed municipal redlining that is likely to have adverse impacts on core neighborhoods." Thus, a balanced housing policy is important for healthy neighborhoods.

As noted in the chapters by Vale, Bratt, and Bohl, rental housing, particularly publicly owned and operated rental housing, has developed a bad reputation over the years. But much has been learned about how such housing can be designed and managed so that it is a benefit to both the residents who live there and the surrounding communities. As Apgar (2004, 2) argues:

> As in the case with owner occupied housing, good quality and affordable rental housing can be a pathway to social and economic opportunity. Like homeownership, the availability of good quality and affordable rental housing can go beyond the simple provision of shelter, and also help low-income and low-wealth families and individuals increase their income earning potential, gain access to needed educational and workforce development services and otherwise enhance their quality of life.

Moreover, there are numerous examples of successful rental housing developments, so there is little reason to discriminate against them. In practical terms, this means that federal, state, and local governments should provide financial support for preserving and expanding the rental housing stock in communities throughout the country. Policy prescriptions include the federal expansion of the Low-Income Housing Tax Credit and Housing Choice Voucher programs. Moreover, local governments need to remove regulatory obstacles to the construction of rental housing and, indeed, actively encourage its development through both funding and regulatory mechanisms such as inclusionary zoning (Calavita and Grimes 1998).

Recommendation 2: More attention should be paid by all involved to the conditions under which homeownership will lead to positive outcomes.

Several of the chapters in this book, including those by Vale, Belsky and colleagues, Bratt, Rohe and colleagues, and Reid, suggest that policymakers and local practitioners, such as those developing affordable homeownership opportunities or conducting homeowner training courses, should pay more attention to the conditions under which homeownership will be successful. The often ignored downsides of affordable homeownership programs include payment stress on households that max out on their housing payments; under-maintained properties that drag down the surrounding area; owner dissatisfaction with the neighborhoods in which they bought their homes; and mortgage default leading to ruined homebuyer credit ratings, financial losses for lenders and insurers, and vacant properties that can undermine the value of surrounding properties. Although mortgage default is relatively rare, some studies indicate that it is on the rise (Collins 2002).

What can be done to reduce the likelihood of these negative outcomes? First, all those involved in affordable homeownership programs have to be careful not to "oversell" the benefits of ownership and "undersell" its responsibilities. The hyperbole surrounding homeownership needs to be reined in.

Second, those who are involved in qualifying lower-income households for mortgage loans need to be realistic about the financial capacity necessary to be a successful homeowner. In a very short period of time, mortgage lenders have gone from using very restrictive income-to-housing-cost and income-to-total-debt ratios to very liberal ones. Lenders need to be careful not to push that envelope too far. They should be realistic about the extent to which household spending patterns will change after purchase of a home and how much owners will be able to save for home maintenance and repairs. Lenders should require that homebuyers have reserve savings to cover repair and replacement costs at the time they buy their homes. Putting every dollar they have into the down payment and closing costs is a very risky practice.

Moreover, lower-income buyers should be encouraged to set up savings accounts for home maintenance and repair. As Rohe and his colleagues show in their chapter, a substantial percentage of lower-income homebuyers reported that they did not have the financial ability to make needed repairs to their homes, and this undermined some of the positive benefits of homeownership. One way of encouraging savings for maintenance and repair would be to set up or expand existing individual development account programs for this purpose. The savings of lower-income homeowners would then be matched by funds provided from public or foundation sources.

Third, nonprofit housing organizations, homeownership counselors, and the buyers themselves need to pay more attention to conditions in the neighborhoods surrounding the homes they build and/or buy. More than the house itself, it is the characteristics of the surrounding neighborhood that will determine whether the buyer will reap many of the benefits of homeownership. The appreciation in the value of the unit, for example, will depend on the demand for property in the larger neighborhood, which in turn is influenced by crime levels, school quality, the upkeep and repair of surrounding properties, and other factors. Moreover, the enjoyment of the property and the extent to which it opens up opportunity, such as easy access to good jobs, are affected by those same factors. As the chapter by Reid suggests, for certain population groups, buying a home does not necessarily lead to improved neighborhood conditions. Van Zandt and Rohe (2006) come to a similar conclusion. In fact, they found that the continuing renters in their sample were more likely to move into better neighborhoods than were the homebuyers. The importance of neighborhood conditions also suggests that producers of affordable homes, whether they are for-profit or nonprofit, take them into account when they decide where to build affordable housing units. Ideally, new affordable homes should be developed throughout a

community rather than just in the historically low-income neighborhoods. Inclusionary housing programs are an effective means of doing this (Calavita and Grimes 1998).

Fourth, Belsky and his colleagues in their chapter emphasize the importance of mortgage terms in determining the amount of equity that lower-income homebuyers were able to realize through homeownership. Mortgage interest rates were found to be particularly important in determining whether homeownership is a good investment. For those with higher interest rates, typically associated with sub-prime and predatory mortgages, buying a home was often a poor investment. Moreover, the mortgage holders of lower-income buyers with relatively high interest rates often failed to take advantage of opportunities to refinance their loans and lower their interest rates. This suggests that pre-purchase homeowner education programs should be expanded to help lower-income buyers seek out and qualify for conventional mortgages with lower interest rates. Such counseling will need to include assistance in helping prospective buyers improve their credit scores. Post-purchase counseling also needs to be expanded to assist homebuyers in refinancing their mortgages at the appropriate time and to help them avoid predatory lenders who would strip the equity they have built up in their homes. More will be said about this shortly. Stronger legislation controlling predatory lending is also needed.

Recommendation 3: Homebuyer education, both pre- and post-purchase, should be expanded and improved.

Several of the chapters, including those authored by Bratt, Collins, Stegman and colleagues, Belsky and colleagues, Rohe and colleagues, and Reid, recommend an expansion of homebuyer education. Although homebuyer education has been conducted for many years, it has been underfunded and has served only a very small percentage of lower-income buyers. Homebuyer education, however, can play an important role in maximizing the probability that the homeownership experience will be successful. The topics covered in pre-purchase homebuyer education programs typically include (1) the homebuying process; (2) money management skills, including household budgeting and debt management; (3) financing options; (4) evaluating prospective homes; (5) home maintenance; and (6) ways to prevent foreclosure and avoid predatory lenders (McCarthy and Quercia 2000).

Research on the impacts of homebuyer education indicates that, under certain conditions, it is indeed effective in reducing mortgage default (Hirad and Zorn 2001; Hartarska and Gonzalez-Vega 2005; Quercia, Cowan, and Moreno 2005). Homebuyer education is offered by a variety of different types of organizations and in different formats. The organizations offering this education include for-profit organizations, often associated with lenders, and nonprofit organizations supported by HUD grants and other funding sources. The homebuyer education offered by nonprofit organizations is a small fraction of

counseling programs offered (Hirad and Zorn 2001). Education programs take many forms, including in-person group or individual instruction as well as telephone, on-line, or self-study programs. Hirad and Zorn (2001) discovered that only 19 percent of the counseling received by homebuyers was in-person, group, or individual instruction, yet this was found to be the most effective form of education. They report that individual counseling achieved a 34 percent reduction in ninety–day delinquencies; classroom instruction resulted in a 26 percent reduction; and home study achieved a 21 percent reduction. Those who received telephone counseling, however, showed no statistically significant reduction in delinquency rates.

Although HUD has increased funding for homeownership counseling, additional support is clearly needed to reach a larger number of new homebuyers. For their part, the GSEs and lenders should also expand requirements for counseling for those taking advantage of affordable loans, including those with low or no down payment requirements and relaxed underwriting criteria. Moreover, those requirements should specify the types of counseling that have been shown to be effective. The counseling agencies themselves should be careful not to oversell the benefits of homeownership and must be willing to tell some clients that they are not ready to become homeowners.

Given rising mortgage default rates, there is also a need for post-purchase homeowner education programs. These can be divided into two categories: those that seek to prevent buyers from falling behind on their mortgage payments and those that assist homeowners who have already fallen behind on their payments (Gorham, Quercia, and Rohe 2003). Programs in the first category typically provide new homebuyers with additional training on budgeting, energy conservation, home repair, and other topics that will help them keep up with their mortgage payments and maintain their homes. The programs in the second category typically help clients in arrears on their mortgage payments develop a plan for catching up with their payments and negotiate workout agreements with creditors. Some post-purchase counseling programs have also established loan funds that provide bridge loans to those who have fallen behind on their mortgages due to a temporary health problem or other events beyond their control. The need for pre- and post-purchase counseling is great, and funds for their expansion should be provided by both HUD and the lending industry.

Recommendation 4: Greater attention should be paid to closing the gap between white and minority homeownership rates.

Although the Bush administration identified the relatively low rates of minority homeownership as an important issue and developed the Blueprint for the American Dream initiative, data on homeownership rates by race and ethnicity show that large disparities continue to exist among the rates for whites, African Americans, Hispanics, and Asians. Although some progress had been

made in closing these gaps as of 2004, the homeownership rate among all white households was 76 percent, while it remained less than 50 percent for both African American and Hispanic households and 60 percent for Asian households (Herbert et al. 2005). Thus, continued attention to this issue is warranted. One study on the determinants of the homeownership gap between whites and minorities suggests that a large proportion of it can be explained by intergroup differences in income, wealth, marital status, and age. Yet from 5 to 10 percent of the gap remained unexplained and was likely due to discrimination and differences in information about housing markets (Herbert et al. 2005).

Studies of the obstacles to homeownership consistently indicate that lack of savings and poor credit histories are the greatest impediments to buying a home for lower-income and minority households (Listokin et al. 2001; Engelhardt and Mayer 1998). This suggests that one effective strategy would be to expand programs that encourage savings, such as individual development account programs. This approach is preferable to simply lowering down payment requirements since funds are also needed to cover closing costs, moving costs, and reserves. The expansion of financial literacy training programs would also help reduce the homeownership gap. These programs teach people about the importance of saving, budgeting, and money management. Moreover, the expansion of homeownership counseling programs, as discussed earlier, should have a positive impact, particularly if they offer credit counseling. These programs yield knowledge about the homebuying process and often provide access to more affordable mortgage products. Of course, minority households have to know about these programs and enroll in them. Thus, they should be widely advertised in media that are likely to be seen or heard by minority households.

Given that minorities are overrepresented among low-income households, broader non-housing-specific social policy may also have an important impact on minority homeownership rates. Raising the minimum wage, enhancing the Earned Income Tax Credit program, and other public policy would disproportionately benefit minority households and improve their ability to buy homes.

Finally, there is little doubt that discrimination in the housing market continues to depress homeownership rates for minority households. Research on the treatment of minorities by real estate agents, lenders, and others involved in the homebuying process suggest that as much as 50 percent of minority households experience some form of unequal treatment (Turner and Ross 2005). Thus, stepped-up enforcement of fair housing laws should be an important component of efforts to expand minority homeownership.

Recommendation 5: All federal housing assistance programs and the GSEs should better target low-income, first-time homebuyers.

The efficiency and equity of current federal housing and tax policy in expanding homeownership opportunities is questioned by the authors of several of the

chapters in this book. Collins especially argues that current policies are poorly targeted to helping households make the transition from renting to homeownership. In particular, the mortgage interest deduction, which in 2004 provided $63 billion in tax savings, does very little to assist lower-income buyers in purchasing a home. Rather, given that interest paid on mortgages up to $1 million, on either primary or second homes, can be deducted, a very large percentage of the benefits goes to middle- and upper-income households. For the majority of lower-income homeowners, the combined value of the mortgage interest tax deduction and other itemized deductions is not greater then the standard deduction, so they receive no tax benefit at all. Collins argues that the interest deduction is "less of an incentive to convert from renter to homeowner than a support for existing homeowners, encouraging households to take out larger mortgages to pay for non-housing consumption or even second homes." Moreover, he goes on to suggest that "fist-time borrowers ineligible for itemized tax deductions might receive a tax credit for three years for the value of interest paid."

Collins is not the first to point to the highly regressive nature of the mortgage interest tax deduction and propose its reform (see Dolbear 1972, 1989; Nenno 1996; Stone 1993). As discussed by Dreier and Atlas (1996), however, earlier attempts to alter this deduction have been vigorously fought by the homebuilding, mortgage lending, and real estate industries and have gone nowhere. As described in the *Mortgage News Daily* (2005), "Social Security may be the third rail of American politics, but the mortgage interest deduction is the equivalent of an electrified apple pie."

Dreier and Atlas (1996, 356) have proposed replacing the interest deduction with a "refundable progressive homeowner tax credit similar to the Earned Income Tax Credit" that would be adjusted according to regional housing costs. They argue that such a tax credit would limit the subsidy provided to wealthy homeowners while preserving it for the middle class. In this way they hoped to garner more political support for their proposal.

A more recent proposal to alter the mortgage interest deduction came from President George W. Bush's tax reform panel. It has proposed, along with other tax reforms, replacing the current mortgage interest deduction with a tax credit equal to 15 percent of the amount paid on mortgage interest during the tax year. It would limit the tax credit, however, to the interest payments on mortgage amounts between $227,000 and $412,000, depending on the median price of housing in local areas. Furthermore, it recommended the elimination of the deduction for residential property taxes and the creation of tax-free savings accounts to be used for buying a home. At the time of this writing, the proposal had been submitted to the secretary of the treasury for review. Moreover, the real estate, mortgage lending, and homebuilding industries were beginning their campaigns against this proposal, arguing that its enactment would negatively impact both home sales and home values, which in turn would send the economy into a major recession.

If acted upon, however, this proposal would go a long way toward curtailing the regressive nature of the mortgage interest deduction. It would ensure that low-income homeowners received some tax benefit, although it would still be less than that received by middle- and upper-income households. Ideally, the increased federal revenue from this or similar proposals would go toward expanding housing assistance for the poor, but given the large budget deficit, this seems unlikely to happen.

Beyond the mortgage interest deduction, Collins argues that other federal programs including the FHA programs and the Mortgage Revenue Bond programs should also be better targeted toward first-time homebuyers. The FHA 203b mortgage insurance program has traditionally offered lower-income homebuyers loans with more favorable underwriting criteria, lower down payment requirements, and slightly lower interest rates. The mortgagees, however, pay an insurance premium that is typically financed by including it in the loan, thus raising the monthly payment. In more recent years, however, non-FHA-insured loans have frequently offered similar or even better terms, so FHA loans have been declining in popularity. Thus, a rethinking of the role of the FHA 203b program is in order. Collins's proposal is to better target the program toward first-time homebuyers and to provide those buyers with down payment assistance and lower premiums. This would allow many more families to make the transition from renting to owning. Whereas the current FHA program pays for itself, lower premium payments and down payment assistance may mean that annual federal subsidies would be needed. Those additional subsidies could be paid for with the savings from the revision of the mortgage interest tax deduction as described earlier. Even more first-time homebuyers could be served if the Mortgage Revenue Bond program, often coupled with the FHA program, provided deeper interest rate subsidies.

In their chapters both Collins and Stegman and his co-authors also recommend that government-sponsored enterprises, including Fannie Mae and Freddie Mac, should increase their goals for serving first-time homebuyers. In fact, HUD, which has the authority to set the level of three affordable housing goals, has moved to do just that. The GSE act of 1992 mandated that the GSEs devote certain percentages of their businesses to three targeted populations: (1) families with incomes at or below the area median; (2) families with incomes below 80 percent and below 60 percent of the areas median; and (3) families living in low-income census tracts or in low- or middle-income census tracts with high minority populations. The target for the first goal in 2004 was 50 percent, to be increased each year so that by 2008 it would be 56 percent, meaning that by 2008, 56 percent of all loans purchased by the GSEs should involve borrowers with incomes below the local median. The target for the second goal would rise from 22 percent in 2004 to 27 percent in 2008, and the target for the third goal would rise from 31 percent in 2004 to 39 percent in 2008 (HUD 2005b).

In addition, HUD included sub-goals under each major goal for the purchase of mortgages for buying, rather than refinancing, single-family, owner-occupied properties located in metropolitan areas. These goals and sub-goals put pressure on the GSEs to develop mortgage products that are favorable to first-time homebuyers. Thus, it may be wise to see how the GSEs respond to these new goals before imposing any additional regulations.

Recommendation 6: The Community Reinvestment Act should be expanded to include all mortgage lenders.

As discussed in chapter 1, the Community Reinvestment Act (CRA) was passed in 1977 in response to lender redlining of low-income and minority neighborhoods. The law requires federally insured and regulated depository institutions to serve the credit needs of its entire market area. Since its enactment,the CRA has been responsible for the investment of billions of dollars in low- and moderate-income neighborhoods, mostly in the form of mortgage loans to homebuyers (Schwartz 1998).

As Collins points out in chapter 4, however, mortgage lending has changed dramatically since the adoption of the CRA. The depository institutions no longer dominate mortgage lending. Rather, credit unions, mortgage banks, mutual funds, pension funds, insurance companies, and other investment companies play a major role. Yet those lenders are not covered under the CRA. Thus, expanding the act to account for this change in mortgage lending seems warranted.

In addition, there have been several proposals to alter provisions of the CRA that may have the effect of weakening its impact (Hossain 2004). These proposals include changing the criteria for assessing the performance of medium-sized banks so that the number of branch offices in a community will no longer be considered. This could reduce the presence of these lenders in lower-income areas, creating a void that might be filled by sub-prime and predatory lenders. The CRA has been shown to be a very effective mechanism for expanding homeownership opportunities to lower-income families. All attempts to weaken the legislation should be resisted.

Recommendation 7: The production of new affordable housing units should be increased.

The recommendations so far have focused on the demand side of affordable homeownership. But as suggested in the chapters by both Bratt and Collins, it is also important to take actions to increase the supply of affordable units, particularly in high-priced markets where the numbers of affordable units are small.

There are several ways that this can be accomplished. One would be to provide additional Community Development Block Grant and HOME Investment Partnership funds to subsidize the construction and rehabilitation of affordable housing units. CDBG funds, for example, are often used to pay for the infrastructure

costs associated with new affordable home subdivisions, and HOME funds can be used to subsidize the costs of purchasing a rental unit, rehabbing that unit, and selling it to a lower-income family. Unfortunately, funding for the CDBG program has been cut in recent years, while funding for the HOME program has been relatively flat.

As Bratt points out in chapter 3, nonprofit organizations play an important role in the production of new affordable homeownership units. Some of these nonprofits, such as Habitat for Humanity, help keep costs down by requiring the homebuyers to participate in the construction process. In 1996 Congress created the Self-Help Homeownership Opportunity Program (SHOP) to support those efforts. SHOP facilitates self-help housing developments by providing funds for land purchase or infrastructure improvement. The participants in these programs must have low incomes and must be willing to contribute substantial amounts of time toward the construction of the housing units. Funding for this program, however, has been limited to $25 million per year. Expanding this program would seem a cost-effective way to increase the production of affordable homeownership units.

A relatively new idea for spurring the development of affordable homeownership units is to create a homeownership tax credit, similar to the current tax credit for the construction of affordable rental housing. One legislative proposal introduced in Congress would create a tax credit for the development of for-sale units in census tracts with median incomes at 80 percent or less of the local median income, to be sold to households with incomes that do not exceed 80 percent of the local median. The proposal calls for states to receive annual allocations of credit authority of $1.75 per capita, although this would be increased based on the rate of inflation. Estimates are that this tax credit would produce about 250,000 new affordable homes over a five-year period (National Low Income Housing Coalition 2005).

Another new proposal is to create a National Housing Trust Fund that would provide support for the development of housing for very low income families. Funds to capitalize that fund could come from a share of the pre-tax profits of Fannie Mae and Freddie Mac or other sources. Although the focus of this effort is to support the production of rental units for very low income households, the leading advocates of this proposal suggest that 25 percent of the funding could be used to support the development of owner-occupied units (National Low Income Housing Coalition 2005).

State and local governments also have important roles to play in expanding the production of affordable homeownership units. One way that states have helped is through the passage of statutes that encourage local governments to expand affordable housing opportunities (Cowan 2006; Calavita and Grimes 1998). In some instances those statutes either allow or encourage local governments to take actions designed to create more affordable housing—such as adopting inclusionary zoning ordinances—and in others they allow the developers of affordable

housing to appeal local government denials of proposed projects to a higher body. State governments can also institute their own programs to provide financial support for the development of new affordable homeownership units, as is done in California, Massachusetts, and New York.

For their part, local governments can do a lot to facilitate the construction of new affordable units, such as adopting inclusionary zoning regulations, rezoning land to allow for higher-density development, and revising development regulations that add to the costs of housing development. Inclusionary zoning programs require that all new developments contain a specified percentage of affordable units. My own town of Chapel Hill, North Carolina, for example, requires that 15 percent of the units in new developments be affordable or else that a payment be made into the town's Housing Trust Fund. The units that are created under this program go into a community land trust which ensures that those units will remain affordable in perpetuity. Those units are then made available to low-income households at substantially reduced prices.

On the issue of zoning and development regulations, Downs (1997) has argued that they are responsible for up to 50 percent of the price of housing. Even if this is exaggerated, local governments certainly have the power to lower the costs of development by increasing allowable densities, narrowing street widths, requiring sidewalks on only one side of the street, and making other changes to their development codes. They can also reduce the time it takes to approve development projects, thereby reducing developer costs. As argued by both Bohl and Friedman in their chapters, local development regulations should also accommodate attractive modular, manufactured, flexible, and small house designs. Moreover, both authors call for regulatory changes that allow, or even encourage, live-work arrangements so that lower-income households can engage in income-producing activities in their homes.

Recommendation 8: Affordable homes should not look "affordable" and should be well integrated into their communities.

As Bohl recounts in chapter 6, affordable housing was often built to *look* "affordable," which is to say that it looked cheap and ugly. History has taught us, however, that building cheap-looking housing not only fails to meet the interests of its inhabitants but also undermines both the stability of the neighborhoods in which it is located and general public support for affordable housing programs. In the short run, building such housing may save a little money on construction costs, but in the long run it is much more costly in terms of maintenance costs and its negative impact on surrounding property values. Moreover, being able to point to poorly designed and maintained affordable housing gives opponents ammunition for undermining its development.

As both Bohl and Freidman illustrate in their chapters, affordable homes do not need to look cheap or ugly. There are now hundreds of examples of attractive,

well-designed affordable housing units: units that add to rather than subtract from their surrounding neighborhoods. There is little excuse for unattractive boxes with no character or individuality. Thus, housing planners, planning boards, and town councils should demand that affordable housing be well designed and attractive.

Although the design of affordable homes is important, policymakers must also appreciate that each house sits within a community and that the community has as much to do with the benefits of homeownership as the house itself. As Bohl aptly states, "Affordable homeownership is best realized and sustained as part of a broader place making and community building initiative." Thus, when possible, affordable homes should be incorporated into mixed-income, mixed-use communities. Such placement offers a variety of benefits to the homeowners, including reduced transportation costs, a more positive social environment, and a higher likelihood of property appreciation. As discussed earlier, inclusionary housing programs are a good way of bringing about mixed-income communities. Moreover, mixed-use zoning, planned-unit developments, and neo-traditional neighborhood design are also good ways of bringing about mixed-use developments.

Finally, the design of affordable homeownership units should consider the longer-term maintenance and energy costs to be borne by the owners. As energy costs rise, they are becoming an ever larger proportion of total housing costs. Building affordable homes to Energy Star standards would help keep affordable housing affordable over time (Environmental Protection Agency 2006).

The essays contained in this book show that we have learned a lot about the role of affordable homeownership in American society and public policy. It is clear that that the strong desire for homeownership is at least partly socially constructed: that the real estate and lending industries have been effective in amplifying the desire for homeownership among the American public and shaping housing policy in favor of homeownership over rental tenancy. Yet many of the purported individual and societal benefits of homeownership—such as greater satisfaction with life, expanded social networks, and higher levels of participation in neighborhood organizations—are real, and those benefits provide ample justification for supporting affordable homeownership programs.

We have also learned a lot about the ingredients of effective affordable housing programs. Some of those ingredients include pre- and post-purchase counseling, offering favorable mortgage terms and conditions, ensuring high-quality construction, targeting homes in high-opportunity neighborhoods, and promoting effective risk management. Moreover, we understand that not everyone is capable of being a successful homeowner.

We have also learned that federal support for homeownership is both inefficient and inequitable in that federal housing subsidies are very poorly targeted toward first-time buyers. Only a small percentage of the mortgage interest tax

deduction actually supports the transition from renting to homeownership. Instead, the deduction favors upper-income owners who move to larger homes, buy vacation homes, or take out home equity loans. Moreover, the FHA and Mortgage Revenue Bond programs provide such shallow subsidies that they do little to help lower-income families buy homes. For their part, the GSEs could better target their loan products and purchases to first-time buyers.

The need to produce more affordable housing units in higher-cost markets is another lesson learned. Demand-side subsidies, such as down payment assistance, will not be effective if the supply of affordable homes is highly constrained. Additional federal, state, and local government support is needed to expand the supply of affordable units.

Finally, we have learned that the design, placement, and maintenance of affordable housing matters greatly. It matters in how people feel about living in their homes, in the opportunities that are accessible to them, in how well those homes and their occupants are accepted by their neighbors, and in how much public support there is for affordable housing programs.

Yet there is still much to learn about affordable homeownership. For example, we need additional research into the reasons for the gaps among racial and ethnic groups as well as effective ways of reducing those gaps. Are the down payment subsidies emphasized in the Blueprint for the American Dream the most effective way of doing this? Also, much more attention needs to be paid to the sustainability of homeownership among lower-income households. What are the key factors that lead to mortgage default among this segment of the homebuying population, and what can be done to reduce defaults? Moreover, we know very little about the social and economic impacts of default. What are those impacts, and how long do they affect the defaulting households?

We also need to know more about why buying a home, for at least some groups of first-time homebuyers, does not lead to improved neighborhood conditions. Is this largely due to limitations in the location of affordable units or to preferences for central-city areas composed of particular racial or ethnic groups? Reid's chapter presents some preliminary data on the question of why first-time homebuyers move to specific neighborhoods, but we need additional research that employs larger samples.

Another set of important research questions concerns the "black boxes" between affordable homeownership and outcome measures such as improved life satisfaction or positive social behavior among the children of homebuyers. Exactly what is it about owning a home that results in those impacts? If we assume that those findings are not the result of a lack of adequate control variables, does it have to do with identification with mainstream society, residential stability, a greater sense of community in areas with higher rates of homeownership, or other mechanisms?

Future research should also explore the conditions under which homeownership results in those positive impacts. As shown by Rohe and his colleagues in chapter 10, the perceived social conditions in the neighborhood and the homeowner's ability to make needed repairs had significant impacts on many of the social-psychological outcomes considered. What other variables mediate these and other impacts?

Finally, the question of the circumstances under which lower-income homeowners benefit financially needs further study. What are the relative contributions of regional and metropolitan market factors, loan characteristics, neighborhood characteristics, and the behavior of the homeowners with respect to issues such as refinancing and repair and maintenance? Answers to those and other questions will help us understand how lower-income households can maximize the likelihood of realizing the potential benefits of the American dream of homeownership.

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